# FINANCIAL RECONSTRUCTION IN ENGLAND 1815-1822

A. W. ACWORTH

W. E. Gladstone

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BY

A. W. ACWORTH

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# PREFACE

In 1815, as in 1918, England emerged from a great European War, victorious, but with an enormous load of Debt, a dislocated Budget, and an inconvertible and depreciated paper currency. There were the problems of Indemnities, Reparations, and Inter-Allied Debts to be solved: the difficulties of civil and military demobilisation to be overcome. In both cases, the return of peace was associated with a period of unexampled industrial depression.

It is natural, therefore, that the financial history of the years following 1815 should attract considerable attention. It is also quite natural that some of the statements made should betray an incomplete knowledge of the actual facts. Tooke's "History of Prices," written over eighty years ago, remains still the most authoritative work on the monetary history of that time; while, on the financial side, little information is to be obtained outside Parliamentary Papers. Certain aspects of the subject have been treated in short articles, or incidentally in larger works; but nothing approaching a comprehensive survey of the financial and monetary history of these years exists. The following pages represent an attempt to give a short account of what actually happened after 1815. I have confined my attention to financial and monetary matters, and only in the last chapter endeavoured to relate these to the general state of the country at the time; and I have refrained from pointing comparisons or contrasts with the events of the last seven years.

The selection of the years 1815 to 1822 as the period of financial reconstruction needs perhaps a word of justification, though really no other choice of dates is possible. For if 1815, as the year of the Peace, plainly marks the opening of a new chapter in financial history; 1822, or, rather, the beginning of 1823, when the amiable but incompetent Vansittart left the Exchequer, no less plainly marks its close. During the intervening years, the chief concern of the Chancellor was with the financial legacies of the war. But by the end of 1822, the indemnity had been paid over, reparation claims had been satisfied, and only the Austrian Debt remained to be settled; a new balance had been found between public income and expenditure; the gold standard had been restored, even sovereigns had been re-introduced; and if the controversy over Pitt's Sinking Fund had still a few years to run, other methods of dealing with the war debt had at least been definitely rejected. In 1823, with the accession of Robinson to the Exchequer and Huskisson to the Cabinet, a new period of financial history opens—one that looks back to the financial reforms of Pitt and forward to those of Peel and Gladstone.

A. W. A.

Oxford,
May, 1925.

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# NOTE

Sums of money in most cases are expressed in millions of pounds, approximated to one place of decimals; occasionally in the case of small sums, the actual amounts are given.

In the references to Parliamentary Reports and Papers, short titles have been used; the full titles and other details can be found in Appendix G. The page-numbers correspond with the MS. paging of the Volumes arranged for the House of Commons.

The return of Public Income and Expenditure of 1868-69 is referred to as "P.I. and E."; the Reports of the Commons' Committee on the Resumption of Cash Payments as "Resumption I."; and those of the Lords' Committee as "Resumption II."

In the case of Ricardo's writings (except the Letters), the references are to McCulloch's edition of the Works.

# FINANCIAL RECONSTRUCTION IN ENGLAND

## 1815—1822

### I

FINANCIAL EFFECTS OF THE WAR—THE PEACE SETTLEMENT

When the issue was at last decided on the field of Waterloo, the wars with France had lasted for nearly twenty-three years. There were only two intervals of truce. The first, which followed the Peace of Amiens in 1802 and lasted fourteen months, marked a state of momentary exhaustion on both sides, and brought little real financial relief. The second covered the period of ten months that elapsed between the first tentative settlement at Vienna and the beginning of the Hundred Days. It had some appearance of developing into a lasting peace; but owing to the disturbed state of Europe and growing dissensions between the Allies themselves, military establishments were still maintained at a war level, and expenditure was not reduced. In this long period, the conflict ranged over a wide field. The major operations of the war extended from the Tagus to the snows of Russia, from the harbours of Denmark to the Nile. There were also minor operations in the West Indies, in South America and at the Cape; and, in the last years, the north-east seaboard of America was the scene of a desultory and profitless conflict between England and the United States.

To take a principal part in a war of this extent had

inevitably entailed an enormous expenditure of money. On the water, it was left to England alone to oppose the navies of the French and their occasional allies, to win the command of the sea, and to ensure the safety of the commerce that provided the sinews of war. On land, whether the resistance to French invasion was left to continental allies subsidised by English gold, or whether England herself put troops in the field; the main burden fell on the British Exchequer. In 1792, public expenditure amounted to £18 millions; in 1814, it reached the hitherto unprecedented total of £113 millions, and of this sum, no less than £78 millions was met by tax-receipts. In these latter days when public income and expenditure are reckoned in hundreds of millions, such figures tend to lose significance. But we have to remember that in 1793, when the war-cloud burst, England was still a comparatively poor and predominantly agricultural country, with a population of only 8½ millions (Ireland and Scotland added another 5½ millions), and a total national income of perhaps 140 millions sterling.[1] To finance successfully a war that cost this country £831 millions[2] altogether, was under the circumstances a very creditable achievement, and one that the extraordinary industrial development that was taking place at this time, alone made possible.

The strain of the twenty-three years, however, had left its mark; and the financial structure that Pitt had built up was in ruins. Every year of war had seen a deficit of greater or less extent on current income and expenditure; every year had seen some addition made to the dead-weight of the Debt that already before the war had caused misgiving. The work of financial reform, at which Pitt had made a beginning, had been suspended—taxes had been piled on incoherently with a sole view to revenue. Parliamentary control of expenditure had grown slack. In addition, under stress of war conditions, the gold standard had been abandoned; and the value of sterling, thus become an independent paper currency, had pursued an

[1] *Vide* Appendix A. [2] P.I. and E. (App. 13), p. 1191.

uneven course governed by the financial exigencies of the Government or the speculative fancies of merchants, and somewhat feebly controlled by Bank Directors who appreciated very imperfectly what had actually happened.

When, in 1815, there was at length a prospect of lasting peace, the first duty of the Government was to secure a settlement worthy of the efforts that had been made; the second, to repair the damaged finances of the country. To cut down expenditure without creating undue hardship or distress; to reduce and re-adjust the burden of taxation—if necessary, to carry out a reform of the tariff; to find a new equilibrium between public income and expenditure, and to discover some mode of dealing with the oppressive burden of the Debt; and to restore the currency to a stable basis;—this was the task that had to be undertaken. The work of financial reconstruction obviously gave great scope for the exercise of the talents of a financier with capacity and imagination; but it offered equal opportunity for blundering on the part of one with no particular gifts. It is worth while, then, to turn our attention for a moment to the man who held the office of Chancellor of the Exchequer during these critical years.

Nicholas Vansittart, afterwards raised to the peerage as Lord Bexley, first gave evidence of his interest in finance by publishing in the years 1794-96 three pamphlets[3] in support of Pitt's financial policy. He attracted the attention of the Government, and in 1796 was given a seat in the House of Commons. Associating himself politically with Addington, Vansittart was appointed to his first office, a joint-secretaryship to the Treasury, when "the Doctor" succeeded Pitt as Prime Minister in 1801; and again in 1806, it was his interest with Addington that won him the Secretaryship to the Treasury in Grenville's "Ministry of All the Talents." From 1807 to 1812, he was out of office but still took prominent part in debates on financial questions. Thus, in 1811, he took the lead in opposing

[3] "Reply to the Letter addressed to Mr. Pitt by Jaspar Wiles" (1794); "Letters to Mr. Pitt on the Conduct of the Bank Directors" (1795); "An Inquiry into the State of the Finances of Great Britain" (1796).

the conclusions of the Bullion Report and, at Perceval's request, himself brought forward the counter-resolutions[4] (the third of these asserted that the promissory notes of the Bank of England were held in public estimation to be equivalent to the legal coin of the realm, at a time when Bank paper was notoriously at a considerable discount). The resolutions were carried, and recognition of his services was given in the following year when Perceval's assassination led to the reconstruction of the Ministry. Addington became a Secretary of State, and Vansittart was appointed Chancellor of the Exchequer. He held this office until early in 1823; and, therefore, during the seven critical years that followed the peace, was chiefly responsible for the financial policy of the nation.

One further point should be noticed. The Liverpool ministry, which lasted with various modifications from 1812 to 1827, was during most of this period secure of a large, and more or less docile, majority in an unreformed House of Commons; it was also strongly entrenched in the Upper Chamber. Some attention had certainly to be paid to the opinions of Squire Western and to the views of the landed interest, and the thunderings of Cobbett outside Parliament could not be entirely disregarded. But, on the whole, the Ministry was very secure and in a position to carry through any sound and reasoned financial policy that it determined on. Vansittart, in fact, had everything in his favour. We shall see how he used his opportunities.

Before going further, it will be convenient to examine the financial aspects of the peace settlement.

The Definitive Treaty of Peace between the Allies and France was signed at Paris on the 20th November, 1815. In the preamble it was stated that "the indemnity due to the Allied Powers could not be either entirely territorial or entirely pecuniary without prejudice to France in the one or other of her essential interests, and that it would

[4] Parl. Debs. XX. 69-74.

be more fit to combine both modes, in order to avoid the inconveniences which would result were either resorted to separately." The guiding principle of the territorial settlement was that France should give up all her conquests, and that her frontiers should be the same as in 1790.[5] The pecuniary part of the Indemnity was fixed at the moderate figure of 700 million francs (or about £28 millions); and provision was made[6] for the gradual discharge of the sum over a period of five years.

The distribution of the Seven Hundred Millions was fixed[7] as follows:—

| | |
|---|---|
| Austria - - - - - - | 139 millions |
| Great Britain - - - - - | 125 ,, |
| Prussia - - - - - - | 114 ,, |
| Russia - - - - - - | 100 ,, |
| The other Allies (to the number of 31) - | 84½ ,, |
| For Fortification[8] - - - - | 137½ ,, |
| | 700 millions |

In principle, there was to be no priority; but, on account of their financial straits, Russia and Prussia were, with the consent of England and Austria, to anticipate 10 millions of their proportion in the first year on condition of paying back this sum during the four subsequent years.[9]

It was also considered essential that Allied troops should occupy for a time certain military positions along the frontiers of France, owing to "the state of uneasiness and of fermentation, which after so many violent convulsions and particularly after the last catastrophe, France must still experience, notwithstanding the paternal intentions of her King." The presence of the Allied Troops was also, of course, a security for the punctual payment of the

[5] Definitive Treaty, art. I.

[6] Convention relative to the Pecuniary Indemnity, pp. 163-66.

[7] Protocol respecting the Distribution, pp. 193-97.

[8] "The Allies acknowledging the necessity of guaranteeing the tranquility of the countries bordering on France by erecting fortifications on certain points the most exposed, have determined to set apart for that object a portion of the sums which are to be paid by France." (Protocol, art. I.)

[9] Protocol, arts. XI. and XII.

Indemnity: but Wellington always insisted that his army remained in France to ensure the peace of Europe, not to collect Allied Debts;[10] and, in Liverpool's opinion, if France had not had it in her power to fulfil all her pecuniary engagements within the time fixed, the continued occupation of French territory on such grounds alone would have been difficult to justify.[11] The number of troops was fixed at 150,000 and the maximum length of the occupation at five years.[12] Actually, the number was reduced to 120,000 in April, 1817; and in November, 1818, the Great Powers decided to withdraw their troops completely from French territory.

This army of occupation was to be maintained by the French Government:—lodging, fuel, lighting, provisions and forage, being furnished in kind in specified quantities, and the French Government providing 50 million francs per annum, payable in specie from month to month into the hands of the Allied Commissioners, to cover pay, equipment, clothing and other incidental expenses.[13] Of the 150,000 men constituting this army, the British proportion was 30,000;[14] and in the division of the 50 million francs provided towards expenses, England was allotted 10·7 millions.[15]

By Article IX. of the Treaty,[16] France also agreed to pay reparations for certain kinds of damage done to individuals and public bodies. In two supplementary Conventions,[17] the nature of the damage in respect of which claims could be lodged was specified, and provision made for the examination of these claims by Mixed Commissions. As was inevitable, losses were enormously exaggerated—the Continental Powers sent in claims amounting to no less than 1200 million francs (or nearly

[10] *Cf.* Webster, "Foreign Policy of Castlereagh," p. 82.
[11] Yonge, "Life of Liverpool," II., p. 339.
[12] Definitive Treaty, art. V.
[13] Military Convention, pp. 167-71.
[14] Additional Paper relative to the Military Occupation, pp. 633-34.
[15] Protocol, art. XIV.
[16] This confirmed art. XIX. and additional art. IV. of the First Treaty of Paris.
[17] Conventions Nos. 7 and 13 (pp. 176-79, 198-200).

*double* the amount of the Indemnity); the Commissions made very slow progress in the work of adjudication; and France's credit (and consequently her capacity to meet her other engagements) weakened under the shadow of the undefined liability. Some way out had to be found; and after protracted negotiations,[18] a compromise was at length arranged. The claims of the Continental Powers were settled by an inscription of 12 million francs of *rentes* (in addition to previous inscriptions of 5½ million francs);[19] and British claims were settled by an inscription of 3 million francs (in addition to a previous inscription of 3½ million francs).[20] The total sum paid over on this account, then, was 24 million francs of *rentes,* equivalent to a nominal capital of 480 million francs, or nearly £20 millions. The British Commissioners, by exercising a rigorous scrutiny over the claims submitted to them, managed to make the funds placed at their disposal sufficient to liquidate the claims allowed and to leave them with a small balance.[21]

The payment of the Indemnity was also effected in due course. Two instalments, each of 140 million francs, were paid over to the Allied Powers in 1816 and 1817; and in 1818, by a special agreement, France paid the whole of the balance outstanding.[22] These payments involved a severe financial strain[23] and the final transaction needed very careful handling. But, by securing the co-operation of the great bankers, Baring and Hope, and by carefully ensuring that the large sums involved should only gradually be mobilised,[24] the difficulties of the situation

[18] For details, *vide* " Foreign Policy of Castlereagh," pp. 83-85.
[19] Convention relative to the Debts contracted by France, p. 390.
[20] Convention respecting the Claims of British subjects on France, p. 407.
[21] *Vide* Account of the Liquidation of British Claims, pp. 6-7.
[22] Convention for the Evacuation of French territory by Allied troops, pp. 356-57.
[23] The following table shows the maximum and minimum price of 5% *rentes* during the period :—

| 1815. | 1816. | 1817. | 1818. | 1819. | 1820. |
|---|---|---|---|---|---|
| 81.65 | 64.40 | 69.00 | 80.00 | 73.15 | 79.60 |
| 52.30 | 54.30 | 55.05 | 61.00 | 64.85 | 70.10 |

(A. Courtois, " Bourse des Effets Publics, etc.")
[24] *Vide* Convention for the Evacuation, pp. 357, 361, 419, 420.

were surmounted. In effect, France employed the following means of discharging her financial obligations under the Treaty:—the Indemnity (700 million francs) was met, as to two-thirds of its amount, by loans raised through Baring and Hope, as to the remainder, by internal borrowing; the claims for Reparations were satisfied by the inscription of 24 million francs of *rentes* in the names of British and Allied Commissioners; and the cost of the Army of Occupation (nearly 500 million francs) was met partly by internal loans but mainly from tax receipts.[25]

A sum in francs, equivalent to about £5 millions, was accordingly paid over to England as her proportion of the pecuniary indemnity. But, with the exception of £500,000 which appeared under the head of "Miscellaneous Income" in the account for the financial year 1821-22, none of this money passed through the Exchequer or is stated in the accounts of Public Income and Expenditure. The appropriation of the £4·5 millions is, however, given in a Parliamentary Paper of 1823.[26] According to this Return, £1·0 million was distributed as Prize-money to the Army in Paris; £1·3 millions was applied to defray the expenses of the Army of Occupation beyond the sum received from the French Government on that account;[27] £1·5 millions was paid over in respect of fortifications in the Netherlands; and the remaining £·7 million was utilised to meet a variety of small charges, most of which were connected with the war.

In addition to the Indemnity due from France, England was entitled to receive certain sums from Austria and Portugal. During the period of war, loans and subsidies had been made to nearly every country that had joined in the conflict against France; and Spain and Portugal, Sicily and Sardinia, Sweden and Denmark, Russia and Prussia, Austria and Bavaria, with many others, had each had their

[25] *Cf.* M. A. Calmon, "Histoire des Finances de la Restauration," I., pp. 139-229.

[26] Account of Sums received, p. 125.

[27] For details, *vide* Application of the French Pecuniary Indemnity, p. 410.

war effort financed, to a greater or less extent, by the British Exchequer. The total amount expended in this way was £57 millions.[28] Of this sum, the greater part was paid out in subsidies granted in consideration of definite military undertakings; but £6·8 millions represented the amount of three foreign loans—two for Austria and one for Portugal—raised in this country and guaranteed by the British Government.

The Imperial Loans of 1795 and 1797 were for a total of £6·2 millions with an annual charge of £·5 million (including sinking fund and short annuity). The British Government had guaranteed the payment of the interest to the holders; but the Emperor had engaged to make provision "so that these payments should never fall as a burden on the finances of Great Britain,"[29] and when presenting the matter to Parliament, Pitt stated that "every precaution had been taken that could tend to render the transaction safe."[30] Actually, the last payment on the part of Austria was made in May, 1797; and from that date, the charges of the loans were met, year after year, by the British Exchequer.[31] This anomalous state of affairs lasted till 1824, when an arrangement on the subject made in the previous year was carried into effect. According to the terms of this, British claims on Austria in respect of the loans—and these claims amounted on January 5th, 1824, to no less than £15·6 millions—were declared to be liquidated in consideration of the sum of £2·2 millions paid by Austria early in 1824 into the Exchequer.[32] There seems to have been a strong disposition on the part of Austria not to regard the loans as debts to be repaid;[33] and the settlement was no doubt the best possible under the circumstances.[34] Brougham, however, suggested that

[28] P.I. and E. (App. 13), p. 1165.
[29] Convention of 1795, art. I.
[30] Parl. Hist. XXXII. 38.
[31] Parl. Debs. XXXII. 373-74 (Liverpool).
[32] P.I. and E. (App. 13), p. 1033.
[33] *Vide* Correspondence relating to the Repayment of the Loans, p. 44
[34] *Cf.* Webster, "Foreign Policy of Castlereagh," pp. 401-2.

2s. 6d. in the pound was not a very handsome composition for an Emperor;[35] and another member of Parliament expressed a hope "that in justice to other bankrupts, the name of the Emperor would appear in the *Gazette*."[36]

The loan of £600,000 to Portugal was made in 1809. Under the terms of the agreement, Portugal was to provide £57,170 annually, to meet the charges for interest and amortisation. These payments were actually made each year till 1815; but by a clause in a Treaty[37] concluded with Portugal in that year, all further payments were remitted and the charges payable on the loans transferred to the British Exchequer.

In accordance with a previous engagement[38] which formed part of the territorial settlement with Holland, England also undertook in 1815 the charges of half the Russo-Dutch loan.[39] The capital liability was 25 million Dutch florins (or rather more than £2 millions), carrying interest at 5% and a sinking-fund of 1%[40].

The net effect of these various international arrangements was that the Chancellor of the Exchequer, in dealing with the problems of financial reconstruction, was unable to look for any help from outside resources. The Indemnity was scarcely more than sufficient to meet military expenses on the Continent: the Austrian and Portuguese Loans were practically written off as bad debts. Nevertheless, the settlement had one outstanding merit. The negotiating statesmen had appreciated that the capacities of the debtor, and not the aspirations of the creditor, must fix the amounts that could be paid; and that excessive demands on France would only embarrass and discredit at the outset the new constitutional government which had replaced the Napoleonic régime. All the

[35] Parl. Debs. (New Series), X. 357-58.

[36] *Ibid.* 102.

[37] Treaty between Great Britain and Portugal respecting the Slave Trade, p. 515.

[38] Convention between Great Britain and the United Netherlands (additional art.), p. 178.

[39] Convention with the Emperor of Russia, p. 259.

[40] Statement of the Capital, p. 255.

arrangements, therefore, were conceived in a spirit of moderation,[41] and were such as could reasonably be carried out. There was nothing in the financial settlement to impede the economic re-organisation of Europe.

[41] *Cf.* Liverpool's statement of policy (Parl. Debs. XXXII. 641), and Castlereagh's (*ibid.* 699).

## II

### REDUCTION OF EXPENDITURE

THE termination of the war was followed by a vigorous agitation for reduced Government expenditure. The outstanding fact was that the revenue collected in 1815 was more than four times as large as that of 1792; and it was felt that this was a state of things that could not continue for long—quite apart from a natural expectation that victory would be followed by considerable relief from taxation. Ministers, it was said, must adjust their ideas to the new conditions; they must recollect that the country could not continue indefinitely to pay taxes at war rates, and that at a time when it was plunged in the gloom of commercial distress, the need of lightening the burden was imperative.[1] All the services must be cut down without reserve—and particularly the army which had become the spoilt child of ministers and a danger to the State.[2]

This point of view was urged with extraordinary energy and enthusiasm.[3] In January, 1817, Wellesley declared in the House of Lords that the great and original cause of all their troubles was the magnitude of the Government's expenditure. That, he said, was the real source of all their misery. That there were many other causes besides the lavish waste of treasure, the inordinate, mismanaged, unchecked and uncontrolled expenditure, he was ready to

[1] *Cf.* Parl. Debs. XXXII. 413-14.

[2] For the revival of the Standing Army bogey, *vide* Parl. Debs. XXXII. 416, 440, 515.

[3] In 1816, the debates on the Army Estimates dragged on for no less than ten nights.

admit; but the great cause was, he maintained, the magnitude of Government expenditure. The scandalous profusion could not go on. Parliament must do its duty. There was no longer a refuge to be found from the cries of the hungry and famished population. The army must be reduced, the civil list also—the circumstances of the times were so altered that reductions were requisite that had never even been thought of before; and no minister, however successful in other respects, could be said to deserve well of the nation, who should not recommend a most rigid economy in every branch of expenditure.[4] In the Commons, Brougham proclaimed to a cheering House that the people had paid to their utmost farthing and must be taxed no more; and that it was their bounden duty immediately to reduce expenditure to the lowest farthing, since, in the best view which could be taken of their affairs, they had no alternative but bankruptcy or retrenchment.[5] The eloquence of these and other[6] speakers was reinforced by petitions made to the Houses—the "London Petition for Retrenchment of the Military Establishment"[7] being particularly remarkable for the uncompromising and extravagant quality of its language.

Against this blast of empty rhetoric, the Government made a firm stand. Castlereagh pointed out the absurdity of expecting that demobilisation could be effected in a few days: any gentleman, he said, who was acquainted with the nature of public business and who looked at the state of the country with an official eye, could not but perceive that it was impossible to come all at once to a peace establishment.[8] The Foreign Secretary also expressed his doubts as to whether hasty demobilisation was altogether politic: "the most alarming symptom of the times was that out of the great efforts made by the confederacy of Europe against the thraldom with which they were

[4] Parl. Debs. XXXV. 69-71.
[5] *Ibid.* 115-20.
[6] *Cf.* Parl. Debs. XXXVI. 1355 (Parnell), and 1342 (Tierney).
[7] Parl. Debs. XXXIII. 547.
[8] Parl. Debs. XXXII. 417.

menaced by one particular power, so general a military interest had been created that it was impossible to consider Europe as perfectly tranquillised until those armies which had been put in motion should have sunk to their natural level: "[9] he was decidedly against the plan of lulling themselves into the belief that while other powers of Europe kept up formidable armies, this was the only country which could do without the support of a military force.[10]

Another side of the question was dwelt on by Canning. The opposition had suggested that the Government showed their indifference to the sufferings of the people in that they made no attempt to bring relief by economies in administration. Canning replied that though a strict and rational economy might be beneficial, retrenchment was not an unmixed good: such a process necessarily threw upon the world many meritorious and helpless individuals who were added to the numbers of the distressed and augmented the mass of discontent throughout the country.[11] A few days later, Castlereagh stated that no less than 300,000 men, soldiers and sailors, had been discharged since the termination of the war, and left to provide an honest livelihood for themselves without disgracing the glories which they had acquired in their long career in the public cause.[12]

But though the Government made out a good case for a considered and not over hasty demobilisation policy, the energy of the "economy" enthusiasts was not abated, and the loss of the receipts from the Income Tax, repealed in 1816, to some extent forced the Government's hand. The reduction of expenditure was very rapid, for, by 1817, the services were reduced to the new peace-footing. The following table[13] gives some idea as to the rate of reduction:—

[9] Parl. Debs. XXXII. 454.
[10] *Ibid.* 419.
[11] Parl. Debs. XXXV. 124.
[12] *Ibid.* 255.
[13] Figures from P.I. and E. (App. 13), p. 1186; and Finance Committee (1817) 6th Report (App. 2), p. 248.

| Year. | Soldiers and Ordnance voted. | Sailors and Marines voted. | Total. |
|---|---|---|---|
| 1814 | 394,351 | 140,000 | 534,351 |
| 1815 | 275,392 | 90,000 | 365,392 |
| 1816 | 145,724 | 33,000 | 178,724 |
| 1817 | 102,168 | 19,000 | 121,168 |

The statement of Castlereagh mentioned above does not correspond exactly with these figures, but it appears that some 400,000 men were demobilised in the three years 1814, 1815 and 1816; and of this number, between 250,000 and 300,000 were disbanded in the eighteen months between the conclusion of hostilities and the beginning of 1817. The figures are not large in relation to the population as a whole; but the circumstances of the time have to be taken into account. These men were thrown into the labour-market at a time when (a) the recent rapid increase in population was beginning to take effect, and the economic organisation of the country had already to absorb each year a growing stream of workers;[14] (b) industry was suffering from the cessation of war demands and had not yet adjusted itself to the conditions of peace; (c) the business world in general was disorganised by the distress following a commercial crisis.

The peace establishment was still denounced as extravagant, and the "back-to-1792" school were dismayed to find it as much as 60% larger than it had been in the pre-war days. The subject was examined exhaustively by the Finance Committee of 1817. In their Reports, this Committee dwelt on the difficulty of settling the precise figure at which the establishments should be fixed, pointing out that while the pursuit of "entire security" would involve an expenditure that was actually beyond the resources of the country, if the forces were reduced too low, the temporary gain in point of economy might prove expensive in the long run:[15] but they remarked on the greater extent

[14] *Cf.* Appendix A.
[15] 2nd Report, pp. 43-44.

of the Empire to be defended;[16] and suggested that it would be short-sighted to allow the forces to fall below the standard of efficiency and discipline to which they had with much exertion been raised.[17] The general impression conveyed by the Reports is that reductions had been carried quite far enough—especially in the case of the Navy[18]—though there was room for saving in the Ordnance department[19] and for minor economies in the staffing, etc., of the forces.

Before we leave this part of our subject, it will be of some interest to compare the figures for pre-war and post-war expenditure :—

(in million £)

| | 1792 (U.K. net)[20] | | 1817 (U.K. gross)[21] | |
|---|---|---|---|---|
| | Amount. | Percentage. | Amount. | Percentage. |
| Debt Charges - | 9·4 | 51% | 31·4 | 54% |
| Civil Government - | 2·7 | 15% | 9·6 | 16% |
| Fighting Services - | 6·2 | 34% | 17·7 | 30% |
| | 18·3 | 100% | 58·7 | 100% |

The change in the Debt Charges reflects the fact that the capital of the Debt had increased from £239·6 millions in 1792 to £839·4 millions in 1817. The increase in the cost of the civil government is apparent, rather than actual, since the accounts for the earlier year are net, the accounts for the later, gross. If the cost of collection (£5·2 millions) is deducted from the figure for 1817, we have £4·4 millions to set against £2·7 millions, an increase of £1·7 millions only. This increase is readily accounted for :—

[16] The acquisitions were Malta, Ceylon, British Guiana, the Cape of Good Hope, and various islands; our responsibilities in India had also been materially increased.

[17] 2nd Report, p. 44.

[18] 6th Report, p. 206.

[19] 3rd Report, pp. 107-8.

[20] Account for Great Britain made up to 10th October, 1792, account for Ireland made up to 25th March of that year; P.I. and E., pp. 208-9, 340-41.

[21] Account for the U.K. made up to 5th Jan., 1818; P.I. and E., pp. 524-25.

the population had grown in the twenty-five years interval from 14 to 19 millions; prices had risen very considerably;[22] also, "in 1792, all places were paid by fees, perquisites and emoluments for which salaries had been substituted, which made expenditure appear greater—the remission of those fees was in fact a remission to the public of an equal amount of taxes."[23]

In comparing the figures for the cost of the fighting services, the following table will be found instructive:—

| Cost[24] (in million £) | 1792. | 1817. |
|---|---|---|
| Army (including Ordnance) | 2·9 | 11·1 |
| Navy | 3·3 | 6·6 |
| | 6·2 | 17·7 |

| Numbers voted.[25] | 1792. | 1817. |
|---|---|---|
| Soldiers and Ordnance | 56,859 | 102,168 |
| Sailors and Marines | 16,000 | 19,000 |
| | 72,859 | 121,168 |

We see at once that to explain the increased charges under this head we have to look not so much to the numbers serving as to the increased cost per man. The Finance Committee of 1817 reported that the pay of the army with regard to rank and file had been exactly doubled since 1792, with additional allowances after seven years' service; while several charges, such as half-pay, the Compassionate List, and other allowances of a similar kind, were necessarily augmented by the termination of the war and the diminution of the numbers maintained on active service.[26] In the Navy, the rate per man for victualling, etc., was up 50% compared with 1792; and as to naval stores, all the principal articles had risen to prices which might upon the average be reckoned as nearly double.[27]

From 1817 till 1854, the year of the Crimean War, public expenditure remained at a figure between £50 millions and £60 millions, excepting in the years 1833 and 1834—

[22] *Vide* Appendix D.
[23] Parl. Debs. (N.S.) V. 1427 (Huskisson).
[24] P.I. and E., pp. 209, 341, 525.
[25] *Ibid.* (App. 13) pp. 1179, 1185-86.
[26] 2nd Report, p. 44.
[27] 6th Report, pp. 205-6 and App. 17.

in these it fell just below the £50 million mark. In 1835, owing to the extraordinary disbursement of £16·7 millions in Slave Compensation, expenditure rose temporarily to £65·2 millions.

## III

### REMISSION OF TAXATION

THE enthusiasts who, in season and out, denounced the Government's extravagance were not, of course, actuated primarily either by an abstract devotion to the ideal of efficiency in administration, or by concern for the safety of the constitution. Whether, as some maintained, the right policy was to reduce expenditure to the level of income, or whether it was to take the minimum expenditure consonant with proper regard for the national welfare as the fixed point, and then set about raising funds to meet it; the obvious connection between expenditure and revenue was appreciated. Many nights were filled with heated discussion of the Army Estimates, but the Government's proposal to continue the Income Tax roused even warmer feelings.

The Income Tax (or, as it was then called, the Property Tax) had been originally imposed by Pitt in 1798. Though it had been the last resort of a desperate Chancellor of the Exchequer, it proved immensely valuable; and, in 1815, receipts amounted to over £14½ millions. It was recognised as a war-tax, but some of the many war-taxes obviously had to remain if a sufficient revenue was to be forthcoming, and the Government was naturally not disposed to abandon lightly this lucrative source of revenue the moment peace was signed. They proposed, in 1816, to continue the tax at 1/- in the £ (half the previous rate) for two years, arguing that some measure of this sort was necessary if the "winding-up"

expenses of the war were to be financed without fresh borrowing.[1]

The proposal roused a storm of opposition and many members of the Lower House of Parliament seem to have felt so outraged by the mere suggestion that the tax should continue, that their feelings got the better of their powers of argument. The tax, in fact, became the object of much irrelevant abuse. Grenfell, for instance, declared that the property-tax was so odious in its nature that under no modifications whatever ought it to be resorted to at a period of peace: it was objectionable not merely on account of its burdensome nature but because its operation was so repugnant to every principle of civil liberty, that no country deserved to be called free which submitted to it; he alluded particularly, he said, to its inquisitorial power which had been exercised in a way most oppressive and injurious to the public—what might be termed inquisitorial torture had been used.[2] A Petition sent up from the Corporation and Livery of London, was couched in the same vein: "the manner in which the tax was carried into execution, by means of an odious, arbitrary and detestable inquisition into the most private concerns and circumstances of individuals, was still more vexatious, unjust and oppressive; hostile to every sense of freedom, revolting to the feelings of Englishmen and repugnant to the principles of the British constitution: the tax was altogether insupportable—to adopt it upon a reduced scale would be to make a fatal inroad upon the constitution and would most effectually lead, by slower and more certain means, to the subversion of the rights and the liberties of the people."[3]

The "detestable inquisition" which the collection of the tax necessarily involved, seems actually to have been the chief objection to the tax in the eyes of its opponents. How far this was due to an inherent dislike of a direct tax, based on self-assessment and needing the revelation of the secrets of income; and how much to the actual malpractices

[1] Parl. Debs. XXXII. 65 (Vansittart).
[2] *Ibid.* 1042.
[3] *Ibid.* 433.

of the collectors; it is impossible to say. There was, of course, at this period a very general prejudice (as a matter of theory, as well as practice) in favour of indirect taxation. Under a system of indirect taxes, it was held that the citizen could in the last resort abstain from purchasing the taxed article, so that his freedom to pay or not to pay remained unimpaired. And the direct pressure of a tax on income was contrasted unfavourably with the shifting incidence of customs and excise duties. Such opinions, however, were beginning to be held with less conviction. The Property Tax had been in force for nearly twenty years and, after that time, there were many who appreciated its merits in comparison with the pettifogging system of indirect imposts, most of which were quite unproductive from the point of view of revenue and definitely inexpedient in other respects.

Regarding the administration of the tax, it is difficult to speak with confidence. Brougham created a great sensation in the House of Commons by recounting how income-tax returns, sold as waste paper, had been used by a cheesemonger to wrap up the parcels of his customers.[4] But it was not suggested that this represented the usual practice of Commissioners; and, in any case, Vansittart undertook that measures would be taken to secure strictly confidential treatment of the returns.[5] The Government was also accused of employing an army of common informers for the detection of false returns[6]—a practice not only objectionable in itself but subject to much abuse, since the tax was trebled in case of discovered fraud, and half the surplus paid over to the informer. In particular cases, there was no doubt legitimate ground for indignation; but, taken as a whole, the importance of the matter was probably much exaggerated. It is fairly certain that the taxpayer at this time allowed himself considerable latitude

[4] Parl. Debs. XXXIII. 26.

[5] *Ibid.* 430 (for description of the assessment forms and other details, *vide* Dowell, "History of Taxes," III., pp. 92-105).

[6] *Cf.* Smart, "Economic Annals," I., p. 470; Shadwell, "After Waterloo," p. 114.

in the computation of his income; and, if such was the case, he was not entitled to feel resentful if a rather abrupt investigation was made into his method of calculation.

Other objections made to the tax were of a more practical nature. In the case of agricultural tenants, the assessment, then as now, was based on the rent of the land; that is to say, was estimated on a basis independent of the actual profits of the farmer in any one year. Now, in 1816, owing to the heavy fall of prices, agriculture was in the depths of distress; and it was maintained with a fair show of reason that in the case of Schedule B, the tax simply could not be paid.[7] Vansittart was conscious of this difficulty and, in introducing the measure, had stated that the profits of the tenant would be estimated at one-third of the rent instead of three-quarters (as previously), and that relief would be given by extending the period of payment.[8] The Chancellor of the Exchequer unfortunately had weakened his position by a statement made a year previously, when he had intimated his intention of dropping the tax altogether owing to the fluctuations of prices and the general economic dislocation. He had said that the tax would bear with particular severity on the farmers, who though they had benefited on the whole by the average on which their income was calculated, would be subject to a charge much beyond their real property if the tax was continued in that year.[9] The plight of the agricultural community was certainly a serious consideration, especially as half of the receipts from the tax in 1815 were drawn from owners or occupiers of land.[10] But a Parliament less solicitous of the interests of landowners, might have found a way of overcoming this difficulty.

The case for the merchant was much less convincing, though again we see how the rise in the value of the pound strengthened the hands of the opponents of the tax. As far as the commercial world was concerned, it

[7] Parl. Debs. XXXII. 407.
[8] *Ibid.* 1128.
[9] Parl. Debs. XXIX. 858.
[10] *Vide* P.I. and E. (App. 13), p. 910.

was said, the great evil of the tax consisted in that inquisitorial visiting which laid open to the world, with the most ruinous effect, the exact situation of every man's affairs however much he might wish for concealment. It was probable that a large proportion of the commercial interest were suffering heavy losses [an inevitable result of deflation]; and it followed that a trader had either to pay 5% on a supposed profit,[11] or go to the Commissioner and confess his loss: rather than take the latter course, numbers would pay the tax—so that it would be a tax, not on income, but on loss![12]

Other objections were more general. One member of Parliament urged that the abolition of the tax would be a blow struck for economy—as long as the tax was maintained, the Government would not look seriously for the means of retrenchment and the only way to compel them to do so was to terminate its existence.[13] Brougham agreed that the very circumstance of the tax being so productive, formed one of his strongest grounds of objection to it.[14] Attention was also drawn to a reported emigration of capital, due to the burden of taxation at home.[15] But neither of these arguments, even if they had any weight, struck at the Property Tax in particular; and Vansittart could say with perfect truth that among the many opinions to which he had listened, he had hardly ever heard the general equality and equity of the principle of the Property Tax denied.[16]

The opposition, however, was organised with great skill by Brougham. Petitions poured in daily to Parliament and reached a total of about 400. Nearly all of these prayed for the discontinuance of the tax, though the City of Glasgow rather honourably distinguished itself by

[11] Vansittart had proposed that the trader should be allowed to pay 5% on his last assessment as an alternative to making a fresh return.
[12] Parl. Debs. XXXIII. 435.
[13] Parl. Debs. XXXII. 390.
[14] *Ibid.* 402.
[15] *Ibid.* 1062.
[16] Parl. Debs. XXXIII. 429.

petitioning in the opposite sense.[17] Excitement reached a climax when the time came to vote upon the measure; the result was—ayes, 201; noes, 238. The Government weakly gave way,[18] though still believing in their case. When asked by Brougham, why, if they still thought highly of the merits of the Property Tax, they did not again submit it to the consideration of Parliament, Castlereagh replied that he considered the decision of the House final upon the subject and had no intention of again appealing to it.[19]

The circumstances of the rejection of the Property Tax have been recounted at some length in view of its important consequences. Considerable interest attaches, in any case, to the reasons given for rejecting a tax that had proved its worth during eighteen difficult years; that, after being shelved for nearly a generation, was revived by Peel with striking results; and that to-day makes the largest single contribution to the public revenue. The financial troubles of the Government were not over the moment the ink had dried on the Peace Treaties and the action of the Commons in cutting off a fruitful source of revenue was not calculated to smooth the path of reconstruction. The effects of the loss of the Property Tax were particularly marked in two directions.

In the first place, it upset the financial plans of the Government for the two years 1816 and 1817. The Statutory Sinking Fund amounted at this time to £14 millions. In the war years, the Government had been content to raise the necessary funds by borrowing: in 1816, they hoped to strike out on a new line. The receipts from the halved Property Tax, added to late payments on account of assessments of the previous year, to a large surplus of grants for 1815, and to other smaller items, would, it was calculated, be sufficient to make up the

[17] Parl. Debs. XXXIII. 118.

[18] According to the conventions of the constitution at this period, defeat even on such an issue as the renewal of the Property Tax did not entail resignation, and the Government did not choose to make it a question of confidence.

[19] Parl. Debs. XXXIII. 462-63.

revenue to a sum sufficient to meet both the ordinary expenses of government and the Sinking Fund in the two years 1816 and 1817.[20] The rejection of the Property Tax upset the Government's calculations. So far from having a real surplus to apply to debt-redemption, there was actually a small deficit each year on the balance of income and expenditure,[21] though there were certain outside resources to draw upon. The Government accepted the new situation up to a point, that is to say, they accepted the substitution of a policy of tax-remission for one of vigorous debt-redemption. This is shown by their abandonment of the War Duty on Malt, which brought in about £2·7 millions, two days after the rejection of the Property Tax. The announcement surprised their supporters and opponents equally. The explanation is that during the two days the Government had remodelled their financial programme and put tax-remission in the foreground.[22] The War Duty on Malt was apparently chosen as providing a means of granting to the agricultural community the differential treatment planned for them in the provisions of the rejected Property Tax.[23]

A case can be made out for putting tax-remission before debt-redemption in 1816; but if the Government accepted the former as the chief aim, it was their duty to face the situation with regard to the Debt. This they failed to do. Resorting to loans when tax-revenue failed, to bank-credits when the market was unfavourable for the flotation of loans, the Government still kept up the fiction of the Sinking Fund with adverse results upon the state of the currency.[24] It was in this way that the rejection of the Property Tax reacted indirectly on the value of the pound sterling.

In the second place, the loss of the receipts from the Property Tax and the War Duty on Malt meant that the

20 *Vide* Resumption II. (App. A. 7), pp. 312-13.
21 *Vide* Appendix B (Table).
22 *Cf.* Parl. Debs. XXXIII. 451 (Castlereagh).
23 *Cf. ibid.* 457 (Vansittart), 461 (Castlereagh).
24 *Vide infra* pp. 77-79.

revenue was reduced to about £58 millions—a sum barely sufficient to cover the ordinary expenses of government and which left no margin for either debt-redemption or fiscal reform. Yet some revision of the system of excise and customs duties was much overdue. Vansittart himself, in the course of the debate on the Property Tax, emphasised the point: during twenty-five years of war, he said, taxes had been gradually accumulating; that some revision of the financial system was necessary, no one would deny; and the continuance of the Property Tax for two years would allow definite steps in that direction to be taken. "If the measure were negatived," he added, "the irregular mode in which the money had been raised must be continued and effectual relief would be impossible."[25]

It may be doubted whether Vansittart was quite the man to tackle the very vexed question of tariff-revision, a policy that at the best of times bristles with difficulties. There was, it is true, a widespread feeling that something should be done to free trade, but there agreement ended. Robinson, Vice-President of the Board of Trade, told the House how, in all the communications which he had had with persons engaged in trade, he had never heard the general principles of Free Trade[26] denied, but that he could never get the individual to allow that the general principle ought to be applied in his case.[27] And there was more than the opposition of vested interests to overcome. The spectre of war had passed but it had left a trail of nationalism that diverted the commerce of nations from normal paths. "Partly from mercantilist views," said Brougham, "partly from feelings of a political and almost a religious nature, there are many amongst us who have laid it down as a principle from which they hold it nearly impious to depart, that as little wine as possible must be taken from France. Although that fine country is our

[25] Parl. Debs. XXXII. 1127.

[26] "Free Trade" at this period usually meant only "Open Trade"—the repeal of prohibition or prohibitory duties.

[27] Parl. Debs. XXXIII. 1046.

nearest market and ought to be our best customer; although the vine is its chief produce and its wines are allowed by all to be the best, by some considered as the only ones drinkable; yet their importation is to be avoided, because France is our natural enemy and Portugal is our dear, indeed costly, friend! "[28] Robinson also stated his conviction that there was a rooted prejudice in this country against any facilities being given to foreign powers in disposing of their manufactures in this country.[29] However, with the Property Tax rejected and revenue reduced to the bare minimum necessary to meet expenditure, the Government felt no call to try to overcome these obstacles.

The tariff remained an incoherent mass of prohibitory and protective duties,[30] the bulk of which brought in very little, if any, revenue, but sufficed to hamper the expansion of trade. Sydney Smith's famous quip on British taxation has often been quoted but will bear repetition:—

> "We can inform Jonathan what are the inevitable consequences of being too fond of glory;—TAXES upon every article which enters the mouth, or covers the back, or is placed under the foot—taxes upon everything which it is pleasant to see, hear, feel, smell or taste—taxes upon warmth, light, and locomotion—taxes on every thing on earth and the waters under the earth—on everything that comes from abroad, or is grown at home—taxes on the raw material—taxes on every fresh value that is added to it by the industry of man—taxes upon the sauce that pampers man's appetite, and the drug that restores him to health—on the ermine that decorates the judge, and the rope that hangs the criminal—on the poor man's salt, and the rich man's spice—on the brass nails of the coffin, and the ribands of the bride—at bed or board, couchant or levant, we must pay. The schoolboy whips his taxed top—the beardless youth manages his taxed horse with a taxed bridle on a taxed road:—and the dying Englishman, pouring his medicine which has paid 7 per cent. into a spoon that has paid 15 per cent.,—flings himself upon his chintz bed which had paid 22 per cent.—and expires in the

[28] Parl. Debs. XXXV. 1021.

[29] *Ibid.* 1046.

[30] For an account of the Excise, Customs and Stamp Duties in 1816, *vide* Dowell, "History of Taxes," II., pp. 252-57.

> arms of an apothecary who has paid a license of a hundred pounds for the privilege of putting him to death. His whole property is then immediately taxed from 2 to 10 per cent. Besides the probate, large fees are demanded for burying him in the chancel; his virtues are handed down to posterity on taxed marble; and he is then gathered to his fathers,—to be taxed no more."[31]

Referring to the system of licenses, he wrote:—

> "A truly free Englishman walks out covered with licenses. It is impossible to convict him. He has paid a guinea for his powdered head—a guinea for the coat of arms upon his seals—a three-guinea licence for the gun he carries upon his shoulder to shoot game; and is so fortified with permits and official sanctions, that the most eagle-eyed informer cannot obtain the most trifling advantage over him."[32]

Though the task of actual tariff-revision was left to Vansittart's successor at the Exchequer, we find in these years a steady advance of opinion, and in 1820, when the famous Petition of the Merchants of London—"the first articulate free trade manifesto"—was presented to Parliament, the Free Trade movement really got under way. In view of present-day discussions, it is perhaps worth while to give in outline the speech with which Baring introduced this Petition to the House. There had been peace, he said, for nearly five years, but while other parts of Europe were recovering from the general suffering, in Great Britain every branch of industry remained not merely as depressed but much more depressed than it had hitherto been. Our industry and trade were in a state of utter prostration. The artificial monopoly, enjoyed during the war, was gone: we were surrounded by jealous rivals and had to meet competition all over the world. Other countries where trade was unrestricted by the fetters imposed upon it in this country, were making great strides—France, for instance, where manufacturers were busier than ever before and where there was no unemployment. Yet the

[31] Edinburgh Review XXXIII., pp. 77-78.
[32] *Ibid*, p. 74.

Government went on from year to year trusting that the next year would be spontaneously productive of some favourable change—they were more concerned with keeping office than with giving relief to the country. The safest and wisest course that could be pursued under the circumstances, was to return to those old-established principles and maxims to which the country first owed its commercial success—every endeavour should be made to abolish restriction so far as it was practicable to do so![33] The speech was greeted with loud cheers from all sides of the House.

The repeal of the Property Tax and the War Duty on Malt was the chief change made in these years on the revenue side of the national accounts. The only other considerable variations[34] in taxes were made in 1819, when some £3 millions of extra taxation was imposed for Sinking Fund purposes, and in 1822, when an approximately equal amount was remitted. These modifications were made on conventional lines—by additions to, or deductions from, existing duties—and scarcely call for comment.

[33] Parl. Debs. (N.S.), I. 166-74.

[34] For summary of taxes repealed or imposed 1816-22, *vide* W. Tayler, "History of Taxation," pp. 80-81.

## IV

### PITT'S SINKING FUND

THE wars with France had added over £600 millions to the capital of the National Debt, and the total stood at the end of 1815 at £861 millions, a figure that created almost universal consternation. The Debt was "a millstone which was crushing the country under its weight;" it was "the rock on which all calculations split;" "an evil which almost any sacrifice would not be too great to get rid of." While it was recognised that the limits to taxable capacity were incapable of exact definition, there was a widespread feeling that those limits had already been overpassed and that the Debt was imposing a tax-burden that was breaking the back of the country.

It is worth noticing that Sinclair included an entertaining appendix in his "History of the British Revenue," entitled "An Antidote to Despondency; or Progressive Assertions from Respectable Authority tending to prove that the Nation was ACTUALLY UNDONE prior to the Revolution of 1688; and that it has remained in a continued State of Ruin, or Decay, ever since that memorable era."[1] But the debt situation in 1816 was undoubtedly a legitimate subject for concern. Though the proportion of debt charges to the total public expenditure for the year was not appreciably greater after the war than in 1792, the burden of those charges in comparison with population and the amount of the total national income was certainly much heavier.[2]

[1] *Op. cit.* II. App. 4, p. 51.
[2] *Vide* Appendix A.

To agree on the reality of the burden of the debt-charges was one thing: to decide what was to be done about it, quite another. A national debt is not, indeed, very susceptible of manipulation, and can only be dealt with by one of four methods. (a) It may be wholly, or partially, repudiated—this drastic, effective, but very iniquitous method of treating a national debt has never gained many supporters in this country. (b) The whole, or a large part, of the Debt may be redeemed outright by a special non-recurrent tax. From the necessities of the case, this tax is normally one on realised capital (a Capital Levy), but the basis of assessment may be broadened by taking account of the capitalised value of professional and other incomes. (c) The same end may be attained by slower means. By the sinking fund method, a surplus of revenue is devoted each year to the redemption of the capital of the Debt, which in course of time is gradually liquidated —the effectiveness of this method depends, of course, on the size of the sinking fund and the regularity of its operation.[3] (d) The Debt may be left alone. In this case, the capital of the Debt necessarily remains unaltered; but the amount of the annual charge may be diminished by conversion operations. It should also be noticed that the burden of a national debt is considerably altered by changes in the value of the currency in which it is expressed. Though the nominal capital and interest charges remain unaltered, inflation decreases and deflation increases the real burden of a Debt. The Debt situation, therefore, can legitimately be considered when monetary policy is under discussion; and though currency inflation deliberately undertaken in order to throw off the burden of interest charges cannot be sufficiently reprobated, in those instances where, under stress of war, a currency has suffered severe changes in value, the Debt position must necessarily influence the determination of the new permanent standard.

[3] For the different varieties of sinking funds, *vide* E. A. Ross, "Sinking Funds," p. 88.

The official policy was the maintenance of Pitt's Sinking Fund, a scheme for debt-redemption that, with minor modifications, was in operation during the whole period 1786-1828. The fallacies underlying this at one time venerated institution have been frequently exposed; but, since the preservation of this Sinking Fund in its original purity represented the chief contribution on the Government side to the solution of the debt-problem, it is necessary to give a short account of it. Pitt introduced his measure in 1786. After remarking that the country had but just emerged from the most ruinous and expensive war in which it had ever been engaged, he adverted to the necessity of finding some means of decreasing "the enormous Debt [it was less than £250 millions], to pay the interest of which every nerve had been stretched and every resource nearly drained," and of affording thereby some relief from "the endless accumulation of taxes under the burden of which they were ready to sink."[4] He proposed to institute a really efficient sinking fund.

The general principle underlying Pitt's Sinking Fund was simple enough. To the original fixed sum (in this instance, £1 million) devoted each year to redeeming the capital of the Debt, was to be added the amount saved in interest on debt redeemed. That is to say, the total debt-charges (sinking fund *plus* interest on debt outstanding) would remain constant, but of this fixed amount the proportion applicable to redeeming the capital of the Debt would progressively increase as the amount due for interest gradually grew less. In this way, the Sinking Fund would become more and more efficient, *always provided that the sum applied to debt-redemption represented a real surplus of revenue over expenditure and was not the product of a loan.*

It was not, however, in this manner that Pitt understood the principle. In common with many of his contemporaries, he had been the dupe of the specious arguments of Dr. Price and converted to a belief in "the magical

[4] Parl. Hist. XXV. 1295-96, 1303.

properties of compound interest." His Sinking Fund was based on the acceptance of Price's agreeable fallacies. The £1 million per annum, payable in quarterly instalments to special commissioners, was to be a fixed sum, "fortified as much as possible against alienation"[5]—that is to say, it was not to depend at all on the existence of an actual surplus of revenue over expenditure; and the stock bought up by the Commissioners was *not to be cancelled* but to continue to bear interest, thus providing additional funds for debt-redemption.[6] Fox at once objected that before the twenty-seven years necessary for the complete redemption of the Debt, had elapsed, it was not improbable that there might be another war; and he pointed out the various disadvantages that might result in that event from tying up the sum to be applied to debt-redemption. But Pitt had learnt his lesson well. Price had written that "war would increase the efficiency of the Sinking Fund, and any suspension of it then would be the madness of giving it a mortal stab, at the very time when it was making quickest progress towards the accomplishment of its end."[7] Pitt, accordingly, stated that "it was the essence of his plan to keep the fund sacred and most effectually so in time of war. He must contend that to suffer the fund at any time or on any pretence to be diverted from its proper object would be to ruin, defeat and overturn the whole of his plan."[8] Fox was, however, successful in making one important modification of the scheme. By a clause which he added to the Bill with Pitt's approval, the Commissioners for the Redemption of the National Debt were empowered to apply such money as they had in their hands in subscription to new loans issued by the Government.[9]

Pitt's wish that the Sinking Fund should be inviolable was honoured in the letter and the spirit. Under the

[5] Parl. Hist. XXV. 1309.
[6] *Ibid.* 1317, 1320.
[7] "Appeal," p. 24; his argument in support of this extraordinary statement was that new loans would be borrowed at simple interest, while the Sinking Fund was accumulating at compound interest.
[8] Parl. Hist. XXV. 1321-22.
[9] *Ibid.* 1430-32.

changed circumstances accompanying war, it underwent certain modifications,[10] but these only established the principle of the fund more firmly. Thus in 1792, the annual grant was increased from £1 million to £1·2 millions; at the same time a second Sinking Fund, consisting of 1% on the nominal amount of any new loan, was created. In 1802, the two Sinking Funds were united, and the maximum limit to the amount of the Sinking Fund, which had been fixed at £4·0 million in 1786 and at £4·2 millions in 1792, was abolished. In 1813, since the total of debt "redeemed" then amounted to the whole of the pre-war debt, that debt was held to be discharged; and when new debt was incurred, an equivalent amount of this redeemed debt was to be cancelled and cease to bear interest. In 1815, the sum of money applied to debt-redemption was £14½ millions.[11]

It is often thought that Pitt's Sinking Fund worked satisfactorily in the years of peace, and only broke down when war was declared. In actual fact, the scheme never worked. During the six years 1786-92, there was a total surplus of revenue over expenditure of £4·4 millions, and the payments to the Sinking Fund amounted to £7·5 millions. The Funded Debt decreased very satisfactorily—but the Unfunded Debt increased.[12] When war broke out, the Sinking Fund, conscientiously preserved, became an expensive absurdity. Though the (nominal) capital of the Funded Debt increased from £229·6 millions to £816·3 millions, the fiction of a sinking fund was solemnly maintained. In the years 1793-1815 (inclusive), a total amount of £587 millions (cash) was raised by the creation of Funded Debt; of this, £181 millions was handed over to the Commissioners for the Reduction of the National Debt for the purpose of buying up some of the stock that had been created! Such an operation could not be conducted without loss. The additional interest charge incurred

[10] For full details, *vide* P.I. and E. (App. 13), pp. 1195-1204; or Ricardo, "Funding System," pp. 517-26.

[11] *Vide* Appendix B.

[12] *Vide* P.I. and E. (App. 13), p. 788.

during the war-years, owing to the maintenance of the Sinking Fund, may be estimated at about £360,000 per annum, equivalent to a capital of £12 millions in 3% stock.[13] The system also involved considerable administrative expense. No attempt appears to have been made by the Commissioners for the Reduction of the National Debt to avail themselves of the facilities afforded them by Fox's clause.

The continued existence of a Sinking Fund, the absurdity of which was becoming daily more apparent, was not allowed to pass without criticism. There were intermittent attacks on it in the early years of the new century;[14] and, in 1813, Hamilton published his "Enquiry concerning the National Debt," in which the fallacies underlying Pitt's Sinking Fund scheme were exposed once for all. In opposition to Price's doctrine, Hamilton maintained that the separation of a sinking fund from the general revenue was a measure of no efficacy whatever; and that in time of war, when expenditure exceeded revenue, the preservation of a sinking fund, and the consequent increase of loans, was a system from which no advantage could arise;—if it could be conducted without expense, it would be nugatory; as it was necessarily attended with expense, it was pernicious.[15] Further, he propounded

[13] The amount of the loss occasioned by the maintenance of the Sinking Fund during the years 1793-1816 (inclusive) has been variously estimated: Hamilton's figure for the additional interest charge incurred is £493,000 ("Enquiry," 3rd ed., pp. 196-98); McCulloch's figure is £558,000 ("Taxation and Funding System," 3rd ed., p. 485); the Return of 1868-69 puts it still higher at £660,000 (P.I. and E., App. 13, pp. 1037-38; owing to a series of arithmetical errors, the figure actually given here is £890,000). These estimates are based on different data, but the method adopted in each case is the same—the charge incurred on the *total* sum of money raised by loan during the period, is compared with the charge saved on the *total* sum of money spent by the Commissioners. This method, however, is unsound, since loans might be (and actually were) proportionately heavier at a time when interest rates were high, while the amount of the Sinking Fund might be proportionately larger when interest rates were low; in this instance, it leads to exaggeration of the loss. The estimate, given above, is based mainly on the table given in McCulloch's "Taxation and Funding System" (3rd ed.) p. 471; and is made up of the losses sustained year by year.

[14] *E.g.*, Cobbett in 1803 (Weekly Political Register III., p. 920) and in 1811 ("Paper against Gold," p. 73); Francis in 1806 (Parl. Debs. VI. 599).

[15] *Op. cit.*, p. 143.

twelve general principles of public finance, in the last of which he stated succinctly that the excess of revenue above expenditure was the *only real sinking fund* by which public debt could be discharged; the increase of the revenue and the diminution of expense were the only means by which this sinking fund could be enlarged and its operations rendered more effectual; and all schemes for discharging the National Debt by sinking funds operating by compound interest or in any other manner, unless so far as they were founded upon this principle, were illusory.[16]

Hamilton's pamphlet left very little further to be said on the subject; but his conclusions were by no means generally accepted. By only a small number, it seems, were quite elementary principles of public finance clearly understood; few of these were in Parliament, and none apparently in the Cabinet.[17] Pitt's Sinking Fund had still many years to run. Nevertheless, Hamilton's work exercised a considerable influence indirectly. The clear statement of the case against the Government's policy gave the opposition firm ground from which to press home their attacks. On the other side, the supporters of the Sinking Fund were driven afield in search of arguments with which to defend their position. The one they most frequently put forward was that the Sinking Fund was necessary to maintain the national credit and to keep up the price of funds[18]—its original purpose dropped out of sight.

The first move made by the opponents of the existing sinking fund practice was to urge that the powers given by Fox's clause should be utilised. Grenfell opened the attack in 1814: if the Government, he said, wanted £22 millions, and their own Commissioners had £12 millions to lay out, would it not be better to take this latter sum on their own account than to let it go into the market?

[16] *Op. cit.*, p. 15.

[17] *Cf.* Liverpool's criticism of Hamilton in 1822 (Parl. Debs. (N.S.) VI. 706); Vansittart's views on the subject will appear in due course.

[18] *Cf.* Lowe, "Present State of England," p. 303; for an extreme form of this argument, *vide* Parl. Debs. XL. 965.

The existing method was a very circuitous way of going to work: as fast as the Commissioners poured their £12 millions into the public reservoir, the loan contractors took it out and carried it to the Exchequer. By the method which the clause in question gave them the power to adopt, they could carry it there at once.[19]

The suggestion was ignored, and the whole loan for the year floated in the market; but Vansittart felt the necessity of justifying his action. He, therefore, explained that he had consulted with a number of gentlemen, who were contracting for the loan, as to the propriety of adopting Grenfell's suggestion, and had found them all, with one exception,[20] opposed to the proceeding: under the circumstances, he had thought it advisable to make the loan on the old principle.[21] Grenfell naturally retorted that the loan-contractors were the last people to consult in such a case;[22] but Vansittart's explanation was apparently considered quite satisfactory by the House of Commons as a whole. The matter was allowed to rest for five years.

In 1819, Grenfell returned to the charge. After stating that excess of income was the only principle upon which the reduction of debt, either of a public or a private nature, ever was, ever could, or ever would, be effected; he showed once more the absurdity of the existing system. Commissioners were sent four times a week into the City to purchase stock with money borrowed from the loan-contractors; this was creating a new debt for no other purpose than to destroy an old one; selling new stock cheap in order to buy old stock dear.[23] He estimated the loss occasioned the country by the maintenance of the Sinking Fund during the period 1793-1813 alone, at £20 millions.[24]

Vansittart still stood firm. The great advantage of the

[19] Parl. Debs. XXVII. 579-80.
[20] This, of course, was Ricardo; *vide* Parl. Debs. XL. 352, 356.
[21] Parl. Debs. XXVIII. 66-67.
[22] *Ibid.* 69.
[23] Parl. Debs. XL. 349-51.
[24] Grenfell probably got this figure from Hamilton's "Enquiry" (2nd ed.), p. 153; it is meant to represent the value in 1813 of all the losses previously sustained.

existing system, he said, was that it produced a general steadiness of prices which was extremely favourable to the operations of the money-market, and which benefited the Chancellor of the Exchequer as well as the loan-contractors. Were it not for the regular purchases made by the Commissioners, there would be few real buyers and sellers, and persons under the necessity of selling would be at the mercy of stock-jobbers.[25] On hearing this, Ricardo (who was probably without equal in his knowledge of the City) at once declared that any gentleman who supposed that if the process did not go on, it would be in the power of the jobbers to make hard terms with the sellers of stock, must be perfectly ignorant of the stock-market.[26] Another member of Parliament facetiously suggested that there must be some mystical operation performed by buying and selling in the funds, which by a second operation of the same kind, enabled the borrower to get money on better terms than if he had not previously sold to an equal amount.[27]

But though Vansittart still held his ground, he was less tenacious of it; and Grenfell obtained an assurance that no arrangements would be made with the loan-contractors till Parliament had considered the subject. Not long after, six Resolutions on Public Income and Expenditure, founded on the Reports of the Finance Committee, were presented to Parliament and, in spite of some opposition, passed. The last of these were as follows:—

> "(5) that the sinking fund, applicable to the reduction of the national debt in the present year, may be estimated at about £15·5 millions, exceeding the above sum necessary for the service of the year by about £2 millions only.
>
> (6) that to provide for the exigencies of the public service, to make such progressive reduction of the national debt as may adequately support public credit, and to afford the country a prospect of future relief from a part of its present burdens, it is absolutely necessary that there should be a clear surplus of the income of the country beyond the

[25] Parl. Debs. XL. 354.
[26] *Ibid.* 356.
[27] *Ibid.* 358.

expenditure, of not less than £5 millions, and that with a view to the attainment of this important object, it is expedient now to increase the income of the country by the imposition of taxes to the amount of £3 millions per annum."[28]

When £3 millions of taxes had to be imposed to get an effective sinking fund of £5 millions, the solemn maintenance of an illusory sinking fund of over £15 millions became impossible. This was apparent even to Vansittart's dull intelligence; and he agreed that "the nominal sinking fund" then existing should be reduced by £13 millions—whether this was to be done in the way authorized by Fox's clause or by some other method, would be a subject for subsequent consideration.[29] Actually, the former course was adopted and there was a Sinking Fund Loan of £12 millions. Similar loans were taken in the next two years.[30]

But the new policy was not adopted whole-heartedly. Though Vansittart was prepared to go far to accommodate his critics, it was too much to expect that he should immediately and completely abandon long-cherished heresies! The Commissioners for the Redemption of the National Debt were to employ a *large part* of the funds at their disposal in taking up the loans of the year, but *not all* their funds, however large the loans. In 1820, when a loan of £17 millions was necessary, Vansittart proposed to take £12 millions from the Commissioners and £5 millions from the market. When Grenfell asked why, since the Sinking Fund then amounted to £17 millions, the Chancellor of the Exchequer did not take over the whole amount so as to leave no sum to be borrowed from the market; Vansittart reverted to the old threadbare arguments. "The amount of debt remaining unredeemed at the close of the year might have been nearly the same in one mode of proceeding as in the other, yet the effect upon credit and public convenience would have been

[28] Parl. Debs. XL. 865.
[29] *Ibid.* 918.
[30] *Vide* Appendix C.

extremely different in the two cases. The purchases of the Commissioners, by their regular and equable operation, regulated the market during the whole of the year and prevented sudden fluctuations. It was also to be recollected for how many years the public had been accustomed to the constant practice of these purchases and how much their feelings might have been acted upon and their apprehensions excited by the total cessation of an establishment which had always been deemed so beneficial."[31] Grenfell remained, of course, entirely unconvinced. And when every allowance has been made for the psychology of the City and the vagaries of public opinion, it is difficult to see why Vansittart could not have adopted a straightforward course. He admitted that the experiment of the previous year had turned out much more favourably than he had apprehended; in 1820, the time had surely arrived for the complete change of policy.

The Resolutions of 1819 did much to clear the air—the fiction of a £17 million sinking fund was definitely abandoned. But two questions remained to be settled: (a) whether the "real" sinking fund should be £5 millions or some other amount; (b) in what way this sinking fund should be administered.

On the first question the Government took up a firm stand by the £5 million Sinking Fund. No country, said Castlereagh, could be considered safe, which did not in time of peace make such progressive reduction of its Debt as would enable it to meet the hazard of a future war. The burdens of one war ought not to be allowed to accumulate on those of another, until the vessel of State became as it were waterlogged, without a chance of reaching port, and dreading destruction from every approaching wave. The process of debt-redemption ought to begin with a sinking fund of not less than £5 millions, progressively ascending to £8 millions.[33] If they steadily adhered to a £5 million sinking fund, he added subsequently, a considerable reduc-

[31] Parl. Debs. (N.S.) I. 1165-66.
[33] Parl. Debs. XL. 943.

tion would annually take place in the amount of the Debt, sustaining in every way the public credit of the country, accelerating the rise of funds and, in consequence, the lowering of interest of money, thereby affording a substantial relief to every class in the community. They might look forward to the prospect of progressively reducing, and that at no distant date, not only the whole of the 5 but also the 4 per cents., possibly to a 3 per cent. stock.[34]

The opponents of the £5 million Sinking Fund took up various attitudes. Tierney sounded the note of disillusion. He reminded the House of Commons that, when making his new sinking fund arrangement in 1813, Vansittart had assured them that if his plan were allowed to operate for ten years, it would effect so great a reduction of the public debt, and the fall in the rate of interest in consequence of that reduction would be so rapid, that God only knew what would happen to this devoted country. The event had proved otherwise. He was not going to be a party to the imposition of £3 millions of extra taxes on a distressed country in order to reap very problematical benefits.[35] Ricardo supported Tierney in his opposition to the new taxation: he assumed that ministers would appropriate the fund to the service of the year as a matter of course, and therefore considered the whole thing as a deception practised on the public.[36] Hume went further. Looking on remission of taxation as of more importance than the redemption of Debt, he proposed to abolish the sinking fund altogether.[37] The Government, however, made out a tolerably good case; and, at all events, found a majority to support their proposals. The principle of a £5 million Sinking Fund was accepted, though the dis-

[34] Parl. Debs. (N.S.) VI. 373.

[35] Parl. Debs. XL. 929.

[36] *Ibid.* 1022; *cf.* Letters to Trower No. 28, "Funding System," p. 545, Parl. Debs. (N.S.) IV. 1122, V. 1094-96.

[37] Lowe also put in a plea for remission of taxation rather than the reduction of Debt, on the ground that the interest rate on public securities in 1822 (4%) was quite low enough, and to reduce it further would only drive capital abroad ("Present State of England," p. 305.)

cussion was revived intermittently during the next two or three years.

On the second question, Vansittart took up a characteristic attitude. It was suggested in 1821 that the time had come for a complete simplification of the administration of the Sinking Fund; and that it would be much better to lay before the country the real sum upon which it had to depend for the reduction of the National Debt, instead of keeping up the pretence of a £17 million Sinking Fund and then bolstering up the disingenuous device by borrowing £12 millions out of the nominal fund for the services of the year.[38] Though the proposal received considerable support, the Chancellor of the Exchequer maintained that it would be more satisfactory to continue on the existing lines and not to unsettle the old forms!

In the following year, however, the Committee on the Public Accounts was appointed, and at the end of their Report stated that it seemed advisable that the sum appropriated to the Reduction of the National Debt should be limited to the amount really intended to be applied to the discharge of the Debt and which could be afforded from an actual excess of revenue above the expenditure of the country; and that measures should be proposed for reducing the amount of the Nominal Sinking Fund, and for discontinuing the practice of applying part of it to the public service in the form, then become customary, of an annual loan.[39] In consequence of this recommendation, Robinson (who succeeded Vansittart at the Exchequer) put the Sinking Fund on a new basis in 1823;—the Redeemed Stock in the hands of the Commissioners was cancelled, the obsolete provisions of the various Sinking Fund Acts were repealed, and in place of the existing payments, a new Sinking Fund of £5 millions annually was started. But the shade of Pitt still lingered in the background. The £5 millions was to be a *fixed* grant; the stock purchased by the Commissioners was *not* to be cancelled; and the

[38] Parl. Debs. (N.S.) IV. 299.
[39] *Loc. cit.* pp. 302-3.

interest on such stock was to mount up till the Sinking Fund amounted to 1% of the existing Funded and Unfunded Debt.

The words of the Committee of Public Accounts and the teaching of past experience, were thus alike set at nought. The new version of the Sinking Fund took the same course that the old one had taken. The actual surpluses during the five years 1823-27 (inclusive) only amounted to £10 millions; and even when another sum of much the same proportions was received from the Bank of England on account of the Funding of the Half-Pay and Pensions Charge (itself an elaborate contradiction of the sinking fund principle), the amount was still quite insufficient to meet the demands of the Sinking Fund. There was the usual recourse to loans.

But the days of Pitt's Sinking Fund were coming to an end. In 1827, Grenville published his "Essay on the Sinking Fund." He pointed out that the State had once more been driven avowedly to support its Sinking Fund by borrowing—a policy which was in fact, though not in name, a virtual suspension of the whole system; and that Parliament was expected to pronounce definitively on the re-establishment, modification, or abandonment of that important measure.[40] Most of the Essay is a mere restatement of the contentions of Hamilton, to whom Grenville acknowledged his debt; but the words of the veteran statesman and sometime supporter of the Sinking Fund, carried great weight. In the following year, the Finance Committee in their Fourth Report explicitly condemned existing sinking fund practice,[41] and shortly afterwards the institution, the creation of which Pitt considered to be one of his greatest titles to the gratitude of posterity, was ignominiously swept away. In future, the nation decided to rely on such surpluses[42] as might arise, for the redemption of Debt.

[40] *Op. cit.* p. 3. [41] *Loc. cit.* p. 557.

[42] The Finance Committee recommended an annual provision of not less than £3 millions for debt-redemption (4th Report, pp. 562-63), but the country had had quite enough of sinking funds for the time being, and, in the next few decades, debt-redemption made little progress.

In 1822, the proposal to fund the Half-Pay and Pensions Charge was brought forward. This was the last of those mysterious devices which played so large a part in Vansittart's system of finance, and which eventually brought him into a well-deserved disrepute. The Government's attitude was that the charge did not properly belong to the expenditure of the year, that it could legitimately be treated as a debt incurred rather than a service to be provided, and that considering it as an annuity of £5 millions on lives, they would be justified under the peculiar circumstances of the case in distributing the charge over a certain number of years and in lightening by that means its immediate pressure.[43]

Whatever is to be said for the general principle of funding pensions (and there is not much), it was patently absurd for the Government to carry through such a measure when a sinking fund of £5 millions was still maintained. The opponents of the plan were not slow in pointing out the incompatibility of the Government's two policies. Nothing, said Hume, could be more inconsistent and contradictory than the plans and declarations of ministers in the previous two months. There was one plan for paying off the National Debt and another contained in the Resolutions before the House for adding to the National Debt. By the former they were to burden themselves to relieve posterity; by the latter they were to relieve themselves at the expense of posterity.[44] He proposed that at least the Commissioners for the Redemption of the National Debt should become the contractors for the Annuity.

The Government, however, insisted that the proposed measure did not touch the question of the Sinking Fund[45] (curiously enough with Grenfell's concurrence[46]); Hume's amendment was defeated, and in spite of sarcasm in the Lower and ridicule in the Upper House,[47] the proposal

[43] Parl. Debs. (N.S.) VII. 166-69 (Castlereagh).
[44] *Ibid.* 293.
[45] *Ibid.* 294 (Castlereagh).
[46] *Ibid.* 295.
[47] *Vide* Smart, "Economic Annals," II., pp. 85-88.

was accepted. The charge which amounted at that time (1822) to £5 millions but would steadily decrease, was to be converted into a Dead-Weight Annuity of £2·8 millions for forty-five years.[48] There was some difficulty in putting the measure into execution, since no buyers came forward. Finally, the Bank of England undertook to make the necessary payments for five and a half years in consideration of an annuity of £585,740 for forty-five years. This arrangement lapsed in July, 1828. By that time, the Finance Committee of that year had presented its Fourth Report, in which the whole scheme was categorically condemned.[49] Nothing further, therefore, was done in the matter and no more of the Annuity sold.

It only remains to give an account of what was actually achieved in the way of debt-redemption during the period between the end of 1815 and the end of 1822. The extensive operations in the buying and selling of stock, which the maintenance of Pitt's Sinking Fund made necessary, are set out in full in Appendix C,[50] together with an account of the amounts of Funded Debt and Unfunded Debt left outstanding at the end of each year; but this table needs to be supplemented with a few details. The net reduction of the (nominal) capital of the Funded Debt during the seven years was £19·8 millions; of this total, £10·9 millions was redeemed by the Sinking Fund,[51] £3·9 millions was purchased direct by the Exchequer,[52] and the remaining £5·0 millions was handed in for cancellation in redemption of Land Tax or in exchange for Terminable Annuities.[53] The cash available for debt-redemption amounted to £19·1 millions. The actual total surplus of revenue over expenditure was only £7·3 millions,[54] but an equal amount was obtained by a reduction of Exchequer

[48] For full details of the scheme, *vide* the Resolutions (pp. 93-99).
[49] *Loc. cit.* pp. 560-61.
[50] *Infra* p. 140.
[51] *I.e.*, £10·9 millions is the excess of the capital redeemed by the Sinking Fund over the total of loans issued during the period.
[52] *Vide* P.I. and E., pp. 523, 525, 535.
[53] *Vide* P.I. and E. (App. 10) p. 778, and (App. 11) p. 780.
[54] *Vide* Appendix B.

Balances and £6·3 millions was supplied by late payments on account of the loan of 1815: these items total £20·9 millions, but £1·8 millions has to be deducted on account of Local Loans. Of this £19·1 millions, nearly £11 millions was needed for the reduction of the Funded Debt —£6·7 millions by the Commissioners and £3·9 millions by the Exchequer; and rather more than £8 millions was left available for the reduction of Unfunded Debt.

There is a discrepancy between the net reduction of the Unfunded Debt as given in the Debt Return and as calculated from the Balanced Accounts. According to the former, the amount of Unfunded Debt outstanding on 5th January, 1816, was £44·8 millions, and on 5th January, 1823, £38·7 millions—a reduction of £6·1 millions. According to the Balanced Accounts, £419·3 millions of Unfunded Debt was redeemed and £411·1 millions issued —a reduction of £8·2 millions. Since the Unfunded Debt consisted entirely of Exchequer Bills of various kinds and since the interest on the Unfunded Debt was included in the other Debt Charges, this discrepancy does not seem readily susceptible of explanation. It does not, however, seriously affect the general result; in round numbers, the total reduction of Debt, Funded and Unfunded, was about £25 millions.

The charges decreased correspondingly. The amount payable in respect of Terminable Annuities, and in respect of interest on the Funded and Unfunded Debt, stood at £32·7 millions at the end of 1815 and at £29·7 millions at the end of 1822[55]—a saving of £3·0 millions. The decrease was due to the reduction in the capital of the Debt noticed above, to the effect of Conversion operations (the Conversion of the Navy 5 per cents. to 4 per cents. in 1822 alone saved £1·2 millions annually), and to the lower rate of interest on Exchequer Bills.

[55] P.I. and E. (App. 12) pp. 790-93; the sums naturally correspond in neither instance with the amounts actually expended under this head in either the preceding or subsequent financial years.

# V

## CAPITAL LEVY SCHEME, ETC.

SINCE the National Debt was widely regarded as the chief stumbling-block in the path of economic and financial progress, and held to be in large part, if not wholly, responsible for the distresses of the time; there were many who were dissatisfied with the policy of dealing with this legacy of the war by the uncertain operation of a discredited Sinking Fund, and advocated the adoption of more vigorous measures. The most important of the alternatives suggested was the proposal to redeem outright a large part of the Debt by means of a special tax on capital.

The idea of a Capital Levy was, of course, by no means new; indeed, more than a century had elapsed since this method of dealing with the Debt had first been advocated. As early as 1714,[1] just twenty years after the National Debt was begun, Archibald Hutcheson brought forward in Parliament a scheme for a Capital Levy, which he issued shortly afterwards in pamphlet form.[2] His scheme in-

[1] There is some confusion as to the date. Hutcheson says that he made his proposal in the last Parliament of Anne's reign, *i.e.*, some time between February and July, 1714—Anne died on August 1st in that year. He adds that in *January 1714* he reduced to writing what he *had* mentioned in Parliament and gave the same to *George I* (Collection of Treatises, p. 7). According to McCulloch, it was not till *1716* that Hutcheson brought forward the plan in Parliament ("Literature of Political Economy," p. 319; *cf.* Ricardo's Letters to Trower, No. 33, footnote)!

[2] "A Proposal for Payment of the Publick Debts" (Collection of Treatises, No. 4).

cluded (a) a special levy of 10% on capital in private hands (real and personal estate, public securities, etc.) for the purpose of immediately paying off a large part of the National Debt, (b) an annual tax of 10% on salaries and other emoluments for the purpose of creating an efficient sinking fund for dealing with the remainder. The Debt amounted at this time to about £40 millions. According to David Hume, the scheme was "much approved of by some men of sense, but never was likely to take effect:"[3] it is unlikely that it received a moment's serious consideration.

The idea of a Capital Levy was revived again at the end of the century by Richard Watson, the versatile Bishop of Llandaff. "A new system of finance," he wrote in 1798, "has this year been introduced: and, I fairly own, it has my approbation as far as it goes. . . . But instead of calling for a tenth of a man's income, I wish the minister had called for a tenth, or such other portion of every man's whole property, as would have enabled him not merely to make a temporary provision for the war, but to have paid off in a few years the whole or the greater part of the National Debt." The bishop added that nearly all those with whom he had discussed the matter—and they were men of all classes—had agreed, and would have preferred to pay off the principal of the Debt, rather than be burdened with taxes to pay the interest on it. Then, after expressing his disbelief in the efficiency of the Sinking Fund under the changed circumstances, he gave a lucid exposition of the case for a direct assessment on property for debt-redemption, maintaining that the plan was equitable in principle and, in spite of admitted difficulties, feasible in practice; and that, by paying off the Debt, government would be put on a firmer basis, commerce would be freed from its burdens, and the emigration movement would be checked.[4]

The project was not likely to receive much attention

[3] "Essay on Credit," p. 345; Hume himself thought the scheme inequitable and oppressive.

[4] Miscellaneous Tracts II., pp. 158-68.

while the nation had its energies absorbed in the struggle with Napoleon. But when the war was over, the Capital Levy was much discussed. Ricardo advocated a levy in his "Principles of Political Economy and Taxation,"[5] in 1817; and pamphlets in favour of a levy were published by Heathfield[6] (in 1819), by "a Friend to National Reformation,"[7] and by "Patrioticus"[8] (in 1820). Heathfield's book, we are told, "excited a general and deep interest in the metropolis and throughout the country:"[9] the fact that it ran through six editions within a year shows that it had a large circulation. In Parliament, Ricardo frequently advocated a levy as the best, indeed the only way of dealing with the Debt;[10] and among the supporters of the principle were numbered Joseph Hume[11] and Sinclair,[12] the historian of the British Revenue.

The most detailed scheme was worked out by Heathfield, and it will be enough if we confine our attention mainly to this. Heathfield set out to find an answer to the following question:—if, as was evident, the British Nation had emerged from the war with the advantage of a great increase in political power, how was it that the increase in public happiness was not only *not* co-extensive with the increase of power but apparently was declining in inverse ratio to that increase?[13] He found the answer in the existence of a heavy burden of public debt—"the enactment of a system of public debt is a denial of the protection due

[5] *Loc. cit.* p. 149.
[6] "Plan for the Liquidation of the National Debt."
[7] "Proposal for the Liquidation of the National Debt."
[8] "Suggestions for the Entire Discharge of the National Debt."
[9] Edinburgh Monthly Review III., p. 673; *cf.* Blackwood's Magazine VI., p. 443.
[10] *Cf.* Parl. Debs. XL. 1022-23; XLI. 1577; (N.S.) I. 676; Ricardo proposed to pay off the *whole* debt—"I would pay it off entirely and never allow any new debt on any pretence whatever, to be contracted" (Letters to Trower, No. 36); "the most serious obstacle which I see against the adoption of the plan is the state of representation of the House of Commons, which is such as to afford us no security that if we got rid of the present debt, we should not be plunged into another" (Letter No. 33).
[11] *Cf.* Parl. Debs. (N.S.) VII. 1497.
[12] *Vide* Ricardo's Letters to Trower, No. 36.
[13] "Plan," pp. 1, 2.

to the active and productive classes of the community: an income is enacted thereby from those classes to the inactive and unproductive. The charge of interest for loans of money ought never to be incurred by the State—or, if necessary, as the alternative from a greater evil, should with the least possible delay be removed by the fair and honest discharge of the principal debt."[14] The idea of the public debt being effectually redeemed by the existing Sinking Fund could not be gravely entertained; it was therefore to be considered whether the immediate partial relief and the eventual, entire relief of the British Nation from the burden of a Public Debt upon the basis of a general contribution in respect of property, including the amount of stock created in favour of the public creditor and the amount of all other public securities (not being the property of ex-resident foreigners), could be rendered practicable and safe.[15]

Taking Colquhoun's estimate of the amount of private property in the country in 1812, namely £2,648 millions, and making a deduction so as to be on the safe side, Heathfield reckoned the total of property assessable (in 1819) to a levy at £2,500 millions.[16] To this was to be added another £835 millions, the total[17] of Funded and Unfunded Debt *less* the amount in the hands of ex-resident foreigners (estimated at £15 millions[18]). Hence, if all private property in the United Kingdom, including all claims on the Government in respect of money lent and advanced, were declared by the legislature liable and subject to a contribution of 15%; £500 millions would be realised. The sums due from the different descriptions of property would be as follows:—

[14] "Plan," p. 4.
[15] *Ibid.* pp. 8, 12.
[16] This was probably an over-estimate, *cf.* Appendix A.
[17] The actual amount at the beginning of 1819 was £840 millions, *cf.* Appendix C.
[18] *Cf.* Resumption I. (App. 43), p. 454.

| | |
|---|---|
| From fund-holders - - - - | £125 millions |
| From proprietors of land, houses, canals, mines, fisheries, etc. - - | £263 ,, |
| From holders of agricultural stock, machinery, manufactured goods, goods in process of manufacture, foreign merchandize warehoused, shipping, and domestic property - | £112 ,, |
| Total: | £500 millions |

Heathfield contemplated no difficulty in assessing the proper amounts due from the first two classes: in the case of the third class, attempts at evasion were to be apprehended but not to any considerable extent—"every individual of respectable mind would honourably and freely disclose the value of his property."[19]

Payment, admittedly, presented a more serious problem; but where people held stock in sufficient quantity to liquidate the amount assessed on them for the levy, the stock could be handed in and there would just be the cancelling of stock or other Debt to an amount equal to the sum of their respective assessments.[20] In the case of those who were liable to assessment on landed and other property and did not possess a holding in Government stocks, the method of payment would have to be accommodated to the circumstances of the several parties. Some would possess floating balances or easily realisable assets which could be utilised for payment. A large amount in the aggregate would, however, be required from people not possessing any other property than the immediate subject of assessment; these could be classed as follows:—

First Class—Proprietors of Lands, Houses, Mines and Canals.
Second Class—Manufacturers, Shipowners, Merchants, Traders, Farmers and others.

The first class would make payment over a period of ten

[19] "Further Observations," p. 34; *cf.* Blackwood's Magazine VI., p. 447, and Heathfield's reply—"Further Observations," pp. 119, 121.
[20] "Plan," p. 20.

years, with interest at 5% on the amount of assessment at any time unpaid; after ten years, the interest rate would be raised to 6%. In the case of the second class, the want of security in the substance of the subject of assessment rendered the accommodation offered to the owner of fixed property impracticable: hence, the payment of the principal would be made in five equal annual instalments and there would be interest at 5% payable in addition on the amount outstanding each year. Heathfield considered that this demand would not press with undue severity on farmers and would be readily borne by merchants, manufacturers and traders, owing to the considerable remission of taxes which the levy would make possible. Briefly, the payment of the £500 millions levy would be made thus:—[21]

| | |
|---|---|
| By reduction of stock and unfunded debt | £125 millions |
| By capital to be paid at will of proprietor | £263 ,, |
| By capital to be paid in five equal annual instalments - - - - - | £112 ,, |

The objection was made that there would be a shortage of circulating medium while the levy was being carried through.[22] Heathfield replied that (a) the payment of the £125 millions (one quarter of the whole amount) due from fund-holders, would require no circulating medium at all, since the transaction would be self-liquidating; (b) of the remaining £375 millions, a considerable proportion might be expected to be paid and satisfied by means of cancelling stock; for the rest, payment was spread over five years and the good understanding which obtained for ordinary purposes of business would not be suspended when a great and specially public object required a similar facility.[23] Ricardo also suggested that special "checks," which should be kept distinct from the ordinary circulating medium of the country but should be accepted in payment of taxes (including the levy), should be issued by the

[21] "Further Observations," p. 103.
[22] *Vide* Blackwood's Magazine VI., pp. 446-47.
[23] "Further Observations," p. 117.

Government. In this way the Debt might be gradually liquidated and the Government receive the assessments upon capital to provide for that liquidation, without disturbing the currency system of the country.[24]

The actual redemption of the Debt, Heathfield admitted, presented more serious difficulties. Most of the war loans had been raised in a 3% stock issued at a heavy discount (the price had been at one time as low as 50). In 1819, the 3 per cents. stood under 70, while the $3\frac{1}{2}$ per cents. and the 4 per cents., of which there was a smaller quantity, were well below par. If these stocks were redeemed at par, the fundholder would receive an undeserved capital increment; if they were to be redeemable at prices fixed according to the current market quotation, the public creditor might, with reason, protest against a breach of contract. Which course was to be taken? At first, Heathfield presumed that the former one would be adopted,[25] but, by assuming a fall in the interest rate,[26] was able to argue that the fundholder would not sensibly benefit since only his capital and not his income would be increased. Ricardo, however, took a different view. He stated in Parliament his opinion that the Debt should not be redeemed at par—the public creditor, he said, possessed no such claim; if he were paid at the market price,[27] the public faith would be fulfilled.[28] Accordingly, in his "Further Observations," Heathfield contemplated the possibility of all Government stocks other than the 5 per cents. being fixed for purposes of redemption at a lower rate than the par of 100,[29] and worked out a table of "compensated" prices,[30] based on the market quotations of the day. He

[24] Parl. Debs. XLI. 1577.

[25] "Plan," p. 16.

[26] *Cf.* Ricardo's Letter to Heathfield (Letters to Trower, No. 32); and Heathfield's reply—Palmer, "Speech on the State of the Nation," introd. pp. 7-8.

[27] Since the market price of the £840 millions of Debt was about £700 millions, the difference was considerable.

[28] Parl. Debs. XLI. 1209; *cf.* his letter to Heathfield three days later (Letters to Trower, No. 32).

[29] *Op. cit.* p. 7.

[30] *Op. cit.* pp. 51-52; the prices were:—3% stock—72; $3\frac{1}{2}$% stock—$79\frac{3}{4}$; 4% stock—$90\frac{3}{8}$.

was converted himself to Ricardo's view, but still recognised that the question was an open one, and discreetly left the final decision to the legislature. For purposes of argument, he assumed the more unfavourable course to be taken.

If the levy were carried through, there would be an annual saving of (a) the £5 millions established in 1819 as the "real" Sinking Fund (b) the charges on £500 millions of Debt, say £18 millions; making £23 millions in all.[31] Heathfield proposed to apply the whole of this sum in relief of indirect taxation,[32] on the ground that (a) taxes on articles of consumption were onerous in an excessive degree, since the consumer paid on the average at least twenty-five shillings for every twenty shillings received by the Crown; (b) the attempt to raise revenue from the poor and non-proprietor was delusive,—either the proprietor directly or indirectly capacitated the non-proprietor to pay the duties and taxes, or he was called upon to contribute to his support under the parish-rate; comprehensively considered, in fact, the proprietor, including the stockholder, paid the public annuities, sustained the burden of the Sinking Fund so far as it was sustained, endured the heavy burden of expense incident to the attempt to manage the unwieldy system, supported a large proportion of the population in vice and wretchedness, and, in the re-

[31] Heathfield miscalculates and arrives at a total of £29 millions (*vide* "Plan," p. 26a; "Further Observations," pp. 1-3). He also makes some extraordinary statements as to the effect of the Levy on the level of prices. He states, without attempt at proof, that the purchasing-power of money was not more than 3-5ths of what it had been in 1792; but after the levy, 1/- would become equal to 1/2¾d. nearly of the currency of the year 1792 ("Addenda" pp. 5-6). Expressed in Index Numbers of Prices, the corresponding figures would be 1792, 100; 1819, 166; after the levy, 83! (Reduced to 1792 as base, Jevons' figure, for 1819, is 125 and Silberling's 133). Having made this gratuitous assumption, it is not difficult to prove that the landowner (even if rents drop a little), the houseowner (though rents decline by one-third), and the professional man (with a salary reduced by 15%—why?), will all be better off for paying up their share of the levy like gentlemen. But if, on Heathfield's own admission, rents were not to decline by anything approaching 50%, and there was little apprehension of any further decline in the price of staple commodities except for the constituent of price that consisted of direct duty ("Addenda," p. 13), why should the Index Number fall so violently?

[32] *Vide* "Further Observations," App. D, p. 21.

sult, property, particularly land, was reduced by the mere effect of the artificial system to a condition of great difficulty and embarrassment.[33]

The remaining £350 millions of Debt would be redeemed with funds derived from the following sources:—(a) a tax of limited duration on income derived from British Colonial and Asiatic property, so far as such income could be subjected to one;[34] (b) the surplus of revenue over expenditure—this, Heathfield thought, was likely to be considerable owing to the greater productivity of the reduced duties; he proposed that after the initial remission of taxes, the whole amount of any surplus should be devoted to debt-redemption and not a part even towards further remission;[35] (c) unclaimed stock. To make the remaining Debt more liquid and therefore more readily redeemable, Heathfield suggested that it should be converted into 3% 10-year transferable debentures, redeemable at six months' notice, but subject to the guarantee that not more than £10 millions should be redeemed in any single year.[36]

Such was the scheme. There was never the least possibility of its being adopted, but it evidently attracted considerable attention for a time and was subjected to serious criticism. One point naturally dwelt upon by opponents of the proposal was that while under the existing system non-proprietors contributed out of income in defraying the charges of the Debt, if the levy were carried through, they would be entirely relieved at the expense of property owners.[37] It was also contended (a) that the levy would be extensively evaded and therefore be extremely unfair in its incidence, (b) that the process of payment would disorganise the currency system of the country; these criticisms, as we have seen, were brushed aside by Heathfield with a nonchalance that a dispassionate survey of the

[33] "Further Observations," pp. 22-23, 39.
[34] "Plan," p. 18; "Further Observations," p. 46.
[35] "Plan," p. 18; "Further Observations," p. 47.
[36] "Plan," p. 17.
[37] *Vide* Edinburgh Monthly Review III., pp. 243-44; Blackwood's Magazine VI., p. 445.

actual achievements of Bank Directors and Inland Revenue officials at this time, would scarcely seem to warrant. The practical difficulties of the scheme, however, did not end there.

The amount of the levy has been stated as £500 millions, of which £125 millions was due from fundholders, £263 millions from owners of fixed property and £112 millions from the owners of other property. Now, whatever might be said about the equity or expediency of an all-round indiscriminate reduction of 15% from each individual holding of Government stock, such a measure at least had the merit of being simple in performance and effective in result. In the case of the remaining three-quarters of the levy, the case was quite different. Critics had not been slow to point out that a sudden demand for £263 millions from owners of fixed property would result in forced sales to an extent that would completely disorganise the market.[38] When Ricardo and Heathfield pointed out that purchasers would be as numerous as buyers since the paid-off fundholder would be looking round for an investment;[39] they replied that the sales had to take place before the money with which the fundholder was to be paid, became available and that, in any case, pressure would be always on the seller and not on the buyer.[40] Heathfield, therefore, was driven to admit that in place of this cumbrous process, the success of which depended on the willingness of the fundholder to exchange his Government stock for an investment in land or a mortgage, the Government itself might, so to speak, take up the mortgage and use the interest on it to pay the fundholder's annuity. In other words, the levy (as to half its amount) would become neither more or less than "a redeemable property tax, or a defined mortgage with great facilities for redemption";[41] and instead of any instan-

[38] Edinburgh Monthly Review III., pp. 237-39; Blackwood's Magazine VI., pp. 444-45.

[39] Parl. Debs. XLI. 1209.

[40] Edinburgh Monthly Review III., p. 237.

[41] "Further Observations," p. 112.

taneous or rapid liquidation of the Debt, all that would happen would be that the interest would be paid by means of taxes differing in form but invariable in amount with those then levied for that purpose.[42]

The remaining £112 millions was due from the owners of agricultural stock, machinery, manufactured goods, etc. These were to pay their assessments in equal instalments over five years. Under modern conditions, it might be possible to convert such a payment into a permanent annual charge by making an issue of industrial debentures or preference shares (though here again arises the question of the willingness of the fundholder to exchange Government stock for this form of investment—a willingness that would be mirrored in the relative movement of the various interest rates). But a century ago, the Joint-Stock Company had not yet come into its own; and Heathfield assumed, and evidently intended, that the levy should be paid out of income. This part of the scheme therefore resolved itself into a £22 million sinking fund for five years, based on a special (and very heavy) tax on the profits of farmers, manufacturers, shippers, merchants and retailers. Compulsory capitalisation to this extent could scarcely have been carried out without harmful effects.

The House of Commons in 1822 was not the home of financial enlightenment, but when it agreed with Baring that the Capital Levy scheme "though ingenious in theory and obvious enough, was not very sound for practice,"[43] it was for once in the right, and Ricardo in the wrong.[44] As one critic said, the scheme was of the nature of a compromise between the different plans of gradual and sudden liquidation, and invited comparison with the means of debt-redemption furnished by the acknowledged resources of finance.[45] Its chief feature was the substitution of some £20 millions of direct for indirect taxation. Such

[42] *Cf.* Edinburgh Monthly Review III., p. 237.
[43] Parl. Debs. (N.S.) VIII., 508.
[44] Ricardo's indifferent apprehension of the principles of public finance presents, of course, a striking contrast to his brilliant insight into currency problems.
[45] Edinburgh Monthly Review III., p. 234.

a substitution was eminently desirable; but it could have been more easily effected by re-introducing the Income Tax than by indulging in the spectacular, but unfamiliar and (at that time) undoubtedly impracticable, device of a Capital Levy. For a 10% Income Tax, there was much to be said; for a 15% Capital Levy, very little. The first would have brought in about £15 millions a year—enough to permit the substantial remission of £10 millions of indirect taxes and to allow Castlereagh's dream of a sinking fund of £5 millions, rising to £8 millions,[46] to be realised. The second could not have achieved much more, and would almost certainly have achieved less.

In the spring of 1816 when the country was plunged in the depths of post-war distress, McCulloch published an Essay[47] in which he advocated a reduction of the interest of the National Debt, " proving that this was the only possible means of relieving the distresses of the Commercial and Agricultural Interests, and establishing the justice of that measure on the surest principles of Political Economy." In outline, his argument was as follows:—If the commerce of the country was to be rescued from ruin and put on its feet again, the attempt represented by the Corn Law of 1815 to make permanent the war-price of corn, must be abandoned; but if the price of corn was to come down, the agricultural interest would be ruined, *unless* they were given relief from taxation in compensation; hence, the only way out of the existing impasse was for the Government to reduce expenditure and remit taxes. But the chief charge on the Government and the only one capable of considerable reduction was that for debt-interest. It was, therefore, expedient that the interest on the National Debt be reduced. It was also equitable. For the Debt had been contracted in a depreciated currency and

[46] *Supra* p. 48; such a fund properly administered might have been really efficient in reducing debt, and compulsory capitalisation to this extent, associated with a 10% Income Tax, would have been quite advantageous.

[47] " Essay on a Reduction of the Interest of the National Debt "; this was republished later in the year in an expanded form under the title—" Essay on the Question of Reducing the Interest of the National Debt."

the interest was being paid in one of full value. "If the stockholder, therefore, is paid with half the sum he lent, when his half sum will purchase as much as the whole sum before, no injustice is done him; on the contrary, he is dealt with on the clearest principles of equity."[48]

It is not necessary to discuss this proposal at any length —McCulloch himself repudiated it soon afterwards, and significantly omitted all reference to the pamphlets subsequently. Forcible reduction of the interest on the Debt would have been equivalent to partial repudiation, and amounted to discrimination against a particular form of investment: yet, as McCulloch himself admitted[49] five years later, "the right of public creditors to receive payment of the sums which have been really borrowed from them is quite as good as the right of any private creditor to receive payment of his bond." He also, at this later date, went into the question as to whether "it was really true that the fundholders had derived the immense advantages they were supposed to have done, from the fluctuations in the value of money since 1800:" he found that actually they had suffered a small loss.[50]

Another scheme was put forward by Sir Henry Parnell,[51] who proposed to turn £500 millions of Debt into annuities terminating in 1860. This was in essence only a particular method of applying an annual sinking fund of £5 millions. It was a method that naturally appealed to Ricardo since it "would have the effect of making the sinking fund available, and at the same time placing it out of the reach of ministers."[52] But since a sinking fund in terminable annuities is "the most automatic and cast-iron of all modes of amortisation," the method had obvious disadvantages.

[48] *Loc. cit.* p. 43.

[49] *Vide* Edinburgh Review XXXV., pp. 483-87.

[50] The calculation was made by Mushet in his "Series of Tables, exhibiting the gain and loss to the Fundholders arising from the late fluctuations in the value of the currency, from 1800 to 1821" (2nd ed. 1821); *cf.* Ricardo's Letters to Trower, No. 48.

[51] *Vide* Parl. Debs. (N.S.) VIII. 536, 548.

[52] Letters to Trower, No. 55.

Another proposal[53] was based on the assumption that the fundholder never really expected the principal of the Debt to be repaid, and, as to interest, that it was inconceivable that there should exist for ever a race of pensioners " receiving the reward of long-forgotten services, whose value had become extinct." Accordingly, the duration of the fundholder's income from the funds was to be limited to two lives, or an equivalent number of years, at his own option: by this means, it was said, " the reasonable claims " of the stockholders would be satisfied and a prospect held out of relief from the intolerable burden of the Debt.

[53] " Plan for the Removal of the Public Distresses."

# VI

## RETURN TO A GOLD STANDARD

THE fluctuations that had taken place in the value of the currency attracted much attention in connection with the debt problem. It was realised that, owing to the rapid appreciation of sterling at the close of the war, the burden of the fixed debt-charges had been accentuated: and while some, as we have seen, advocated drastic measures for reducing the nominal interest and capital of the Debt, others became sceptical as to the expediency of resumption and saw in the relapse of sterling to the levels at which it had stood in the later years of the war, a readier way out of the difficulty. But whatever policy was to be pursued with regard to the post-war monetary standard, it was absolutely essential to put an end to the uncertain fluctuations in the value of the currency that had characterised the period 1807-15 and gone far to undermine the mutual confidence between creditor and debtor. With the war over, the need for a credit-system, the only merit of which was its extreme elasticity, was gone; and it became a matter of urgency to stabilise the value of the paper pound, and to settle on such a standard as would cause the minimum of injustice to creditors, of injury to debtors, and of damage to the national credit. In order to appreciate properly how this problem presented itself to those concerned with the matter, it will be best to give a brief sketch of the history of the currency during the previous twenty years.

Restriction had been first imposed on the Bank in February, 1797. Owing to a combination of circumstances[1] (most of them directly connected with the war) the Bank had experienced a steady drain of gold during the previous two years, and at the beginning of 1797 the Directors were faced with the distinct possibility of seeing their stock of bullion exhausted. They, therefore, made representations to the Government, and an Order in Council (afterwards confirmed by Act of Parliament) was issued restraining the Bank from further payment of its obligations in cash. That restriction was at first looked upon as a temporary measure only devised to deal with a particular crisis, is evident from the fact that it was to terminate on June 24th, 1797. But though, as a result of the crisis, the exchanges quickly recovered, and the Bank itself was willing to resume payment, restriction was continued —for obvious reasons. Unfortunately, a measure that allowed the Bank to be lenient in making advances to the Government, gave it equal latitude in granting accommodation to merchants: when the next crisis came, it was the result of commercial discounts having been granted too freely.

The year 1800 marks the beginning of the continued depreciation of the pound, but it was not till 1809 that depreciation proceeded to any length. For though the Bank Directors were free to expand their note-issue at will—and incidentally to increase the profits of the proprietors—they were slow to make use of their new powers. Their inaction is easily explained. Till the year 1803, the date at which restriction was to end was never fixed very far ahead; and the Bank Directors, apart from their temperamental conservatism which tended to keep them to the beaten track, had to envisage the possibility of being required to resume cash payments again at no distant date. At the same time, the more drastic taxation policy pursued by the Government after 1798 sufficed to keep the revenue

[1] *Vide* Hawtrey, "Currency and Credit," pp. 256-65; Cannan, "Paper Pound," pp. ix-x.

within reasonable distance of expenditure, so that the margin was one that could be readily covered by loans without resort to bank-credits. But, in 1809, the situation had changed. By an Act passed in 1803, restriction was to continue till six months after the end of the war—and, in 1809, the war had every appearance of continuing interminably—so that the need of being in a position to resume cash payments at comparatively short notice grew less urgent; the Bank Directors also, after a long period of cautious policy, were ready to be less punctilious in the matter of expanding credit. When, therefore, the opening up of South America to British commerce in 1808 led to a wave of optimism among traders, they gave speculation its head and made little attempt to check the process of inflation. Prices rose rapidly (to a maximum in 1810, according to Jevons), and the exchanges moved in sympathy. In 1810 came an acute crisis followed by " a fall of prices, rapid beyond example," and a long string of bankruptcies.[2]

But the effects of the crisis of 1810 passed off fairly rapidly. In the first place, owing to the currency being on a paper and not on a metallic basis, the Bank was able to treat the crisis leniently : confidence quickly revived and soon gave way to renewed speculation at the prospect of the re-opening of European markets. Secondly, in these last years of the war the expenditure of the Government was so heavy, and so far outstripped the increase in tax-receipts, that the balance had in part to be made up by recourse to bank-credits.[3] It, therefore, came about that the conclusions of the Bullion Committee, publicly condemned in theory, were also ignored in practice. Trade discounts were granted freely, and though the aggregate amount of these fell considerably short of the total reached in the boom-year 1810, the reduction was more than offset by the steady increase in the Bank's accommodation to the Government. With an increase in the circulation of Bank

[2] *Vide* Tooke, " High and Low Prices," I., pp. 102-4.
[3] *Vide* Appendix D (Chart).

of England notes and a still larger increase in the Country Bank note issue, the paper pound rapidly lost value. The Index Numbers for gold and silver reached a maximum of 136 in 1813; and for the following year, Professor Silberling's Commodity Index Number is 198.[4] The impending crash was not long delayed. Exporters had speculated on the almost unlimited demand among the inhabitants of the continent for those goods from the use of which they had been so long debarred: they found that whatever might be the desire of the foreign consumers to possess articles so long out of their reach, they were limited in their means of purchase.[5] Consequently the hopes of speculators were disappointed in 1814, as they had been in 1810. Farmers, on the other hand, fearing the effect of the opening of trade, had pressed for a Corn Law in 1814; but they had met with no success and the only result had been to stimulate the imports of grain. These imports combined with a bumper harvest in 1815 to glut the market. Under these circumstances, the boom gave way to a widespread destruction of credit,[6] a great number of failures, and a state of depression previously without parallel.

But though this contraction of credit in 1815 had many lamentable consequences, it was at least effective in bringing down prices and in making the resumption of cash payments at the old rate a practical proposition. In 1816, the exchanges were back again at par and had not the Bank witlessly undertaken to buy the metal at 78/6, gold would have fallen to the mint-price.[7] By an Act of the previous year, payments in specie were to be resumed on July 5th, 1816, but it was suggested that after the long duration of restriction it would be foolish to attempt complete resumption the moment the exchanges took a favourable

[4] *Vide* Appendix D (Table).

[5] High and Low Prices I., pp. 127-28, 137; *cf.* Attwood, "Creation of Money," p. 25.

[6] According to McCulloch, over 240 (out of about 700) Country Banks became altogether bankrupt, or at least stopped payment, in the period 1814-16, and the total diminution of currency in these years was at a minimum £20 millions, probably much more (Edinburgh Review XXXI., p. 65).

[7] Resumption I., p. 4.

turn, and that two years would be scarcely too long a period to allow for the process of gradually returning to cash payments. Accordingly, the limit of restriction was finally fixed at July 5th, 1818, and in the preamble of the Act, it was stated that it was highly desirable that the Bank of England should as soon as possible return to the payment of its notes in cash and that the Directors of the Bank should make such preparations as should appear most expedient for enabling them to resume payments in cash without public inconvenience and at the earliest period.[8]

At first all went well. From the middle of the year 1816 till the middle of 1817, the exchanges were consistently favourable and gold flowed into the vaults of the Bank: in fact, in the year 1817, the Bank had a much larger amount of cash and bullion in their coffers than they had been in possession of at any former period since their establishment.[9] In consequence, the Directors made, in November, 1816, a first move towards resumption and, in conformity with powers reserved to them by the original Restriction Act, offered to pay in gold £1 and £2 notes dated prior to January 1st, 1812. There was little response: after nearly twenty years of restriction, people had become accustomed to a paper currency for internal use, and with the foreign exchanges favourable, there was no profit to be made by exporting the melted metal. Therefore, in April, 1817, the Directors went a step further and offered payment of £1 and £2 notes dated prior to January 1st, 1816. Again the offer was not taken up to any appreciable extent. Meanwhile, the exchanges were moving against this country and the price of bullion was rising. This, however, did not deter the Bank Directors; and in September, 1817, they gave notice that they would pay in cash all notes dated prior to January 1st, 1817.

The result was exactly as might have been anticipated. In July, 1817, the foreign exchanges became unfavourable

[8] Resumption I., p. 3; II., p. 2.
[9] Resumption I., p. 4.

and it was possible to realise a profit on the exportation of gold. In the following eighteen months, £6 millions were paid out in gold by the Bank, and "no doubt can be entertained that the coin thus drawn from the Bank was demanded not for purposes of internal circulation, but in order to realise a profit, either on its sale as bullion in this country, or on its exportation."[10] This exchange of notes for coin, and the subsequent export of the coin, should, of course, have brought its own remedy by decreasing the currency in the country; but for reasons which will appear, the notes handed in were not withdrawn from circulation, and there was, in fact, in the latter half of 1817, a positive increase in the amount of notes issued by the Bank.[11]

At the beginning of 1819, when the Committees on Resumption were appointed, the situation was briefly this. The price of gold was 83/- (or more than 6% above the mint-price), the foreign exchanges were adverse to an even greater extent, and resumption seemed as far off as ever. At the same time, the Bank Directors through their failure to follow the advice given in the Bullion Report and to advert to the price of gold and the foreign exchanges, had lost more than half the bullion they had held eighteen months previously—to no purpose. Their action was caustically commented upon by the Commons' Committee: "whatever might be the policy and however laudable the intentions of the Bank in engaging to make partial issues of coin in payment of their notes, yet when the exchanges became unfavourable and the price of gold rose above the mint-price, the only mode by which they could have retained the coin in circulation would have been a contraction of their issues; and unless the Bank at that period possessed such a control over the amount of those issues as would have enabled them to effect that object, your Committee must consider it to have been inexpedient in the then state of the exchanges, to undertake an extensive though partial issue of coin, which subjected the Bank

[10] Resumption I., p. 5.
[11] *Ibid.* p. 5.

to considerable loss and a great drain of treasure."[12]

It had, of course, become quite out of the question for resumption to take place on July 5th, 1818, as arranged,[13] and yet another Act was passed extending restriction for a further year. Meanwhile, the Committees of Secrecy were appointed. These almost immediately in Interim Reports urged that the partial resumption undertaken by the Bank, should be discontinued; and then went on to consider the whole question of the currency and the measures that should be adopted with regard to eventual resumption. In making their recommendations, they were influenced by two considerations: that if the restoration of cash payments at the date fixed (July 5th, 1819) were insisted on, the Bank would have to contract its issues to a disastrous extent;[14] while, on the other hand, if the final limit of restriction were again moved forward, unless some security were devised that adequate preparation would be made for resumption on the new date, an undesirable impression might be created that yet further suspensions would take place.[15] In their final Reports, therefore, they advocated a system of graduated bullion payments, which provided for the convertibility of notes into gold at the rate of 81/- per oz. to begin with, and at the standard rate in 1821—this device, it was thought, would at once ensure the certain restoration of the standard in the near future, while obviating the difficulties which a complete return to a gold currency at an early date would entail.

The suggestion was adopted in the Resolutions[16] that

[12] Resumption I., p. 5.

[13] Liverpool, however, wrote on February 10th, 1818, to the Duke of Wellington: "I know enough of the circumstances of the Bank to be perfectly convinced that they might resume their cash payments with safety and without any material diminution of their issues and paper, if the financial difficulties of France, arising out of the claims of the allies, were not a serious obstacle in their way. I give this not as my opinion and that of Mr. Vansittart, but as the clear opinion of the present governor of the Bank, who is one of the most intelligent men in these matters I have ever known" (Yonge, "Life of Liverpool" II., p. 333).

[14] Resumption I., pp. 10-11.

[15] *Ibid.* p. 16.

[16] Parl. Debs. XL. 802-4.

were carried in Parliament; and since, after January, 1819, the price of gold steadily fell and by the end of the year stood at 77/10½ per oz., the formal restoration of the standard was effected without difficulty. As a matter of fact, in March, 1821, it was felt that since the foreign exchanges were extremely favourable and the Bank had nearly £12 millions of bullion in its cellars, provision should immediately be made for the resumption of cash payments also; and Vansittart introduced a Bill which gave the Bank the power of paying its notes in gold coin on and after the following May 1st, if it thought fit to do so.[17] But the coincidence of the reintroduction of gold coin with the restoration of the standard was quite accidental.

It was something to get the restoration of the gold standard in 1821; nevertheless, a long time had been taken to achieve very little. Since the pound had been back at par in 1816, the delay of five years in effecting the formal re-attachment of the currency to gold needs some explanation. Why did the pound so unaccountably depreciate in 1817 and 1818 after being back at par in 1816? was this fluctuation in its value inevitable, or was it the result of mismanagement? and if the result of mismanagement, with whom did the responsibility lie?

These questions are best answered by reference to the Chart given in Appendix D.[18] During the years 1815 and 1816, there is a steady downward trend:—public expenditure falls heavily, and to a lesser extent public income; the Government reduces the Unfunded Debt and pays off a part of its loans from the Bank; commercial discounts are contracted and though owing to the effects of the crisis, the Bank of England note-circulation remains for the time undiminished,[19] the Country Bank note-issue is severely reduced;[20] commodity prices fall violently, the exchanges rise to par, and gold, but for artificial interference, would

[17] Parl. Debs. (N.S.) IV. 1315.

[18] *Infra* p. 141.

[19] *Vide* Appendix D (Note).

[20] The reduction was probably much greater than that given; *cf. supra* p. 72; Parl. Debs. XXXIV. 143 (Horner); Ricardo's Letters to Trower, No. 6.

have dropped to the mint price. Then, in 1817, there comes a reaction;—and we can see the cause. While trade discounts at the Bank are still further reduced, the effects of this reduction are offset by an increase in the Bank's accommodation to the Government. The Bank of England note-issue expands slightly and the new movement of credit is carried forward by the Country Bankers. Consequently, the downward trend of prices is arrested, the exchange and bullion markets react adversely, and a short period of fictitious prosperity is produced at the cost of further postponing resumption and the final settlement of the currency question.

The part thus played by the Government was dwelt on at some length by the Committees on Resumption. They pointed out that the demands of the Government had been complied with by the Directors of the Bank under protest[21] and that the effect of these extensive advances had been to cramp the operations of the Bank in preparing for resumption by placing a large proportion of their issues beyond their control:[22] they concluded by stating that it was "highly expedient that means should be taken to repay to the Bank a large amount of these advances at an early period."[23] It does not, of course, follow that if the Government had kept their demands on the Bank down to a low figure, the Bank would have succeeded in keeping the paper pound at par and in effecting complete resumption at early date. It should be noticed that, though a reduction of profits took place after 1815, the Bank maintained its dividend at 10%; that, owing to the capitalisation in 1816 of nearly £3 millions of undivided profits (an

[21] Resumption I., p. 6; II. (App. A. 12), p. 318.

[22] Resumption I., pp. 8-9; II., p. 10.

[23] Resumption II., p. 10; the Commons' Committee recommended that "the House should make immediate provision for the gradual repayment to the Bank of that portion of the debt, which the Bank required to be repaid, and should establish some permanent provisions, limiting and defining the authority of the Bank to make advances to the Government, and to purchase Government securities; and bringing under the constant inspection of Parliament, the extent to which that authority might in future be exercised" (Resumption I., p. 10); *cf.* Andreades, "History of the Bank of England," pp. 190-91.

amount that, like the rest of the Bank's capital, was lent permanently to the State at 3%), this distribution actually meant paying out larger sums in dividends than before; and that, in consequence, the position of the Bank was weakened at this very critical period.[24] Also, after the drastic liquidation of 1814-15, a tendency to inflation in the next years was almost inevitable; and with Bank Directors still imperfectly acquainted with the principles of their business,[25] the expansion of credit might easily have got out of control.[26] There does, however, seem to have been a real desire on the part of the Bank to get rid of uncertainty; and they *might*, under other conditions, have succeeded in completing the process of resuming cash payments. But, as it was, the demands of the Government tied their hands, and they can, therefore, scarcely be blamed if they lost control.

A further question arises as to why the Government needed to seek these loans so urgently from the Bank. In 1817, equilibrium was reached between income and expenditure, and, on the surface, there appears no reason why the Government should have been in any financial straits at all. The solution of this enigma is to be found in the existence of the fantastic Sinking Fund. In the two years 1816 and 1817, no less a sum than £28 millions was applied as a sinking fund to the reduction of the Funded Debt, which was reduced as a result by approximately £40 millions (nominal). Of course, on the balance of income and expenditure, there was not a surplus of anything like these dimensions—in fact, there was no surplus at all, and the money had to be found in other ways. Late payments on account of the large loan of 1815 provided £6 millions; an equal sum was derived from a reduction of Exchequer Balances;—the remainder had to be obtained by increasing the Unfunded Debt, which meant in part borrowing from the Bank on Exchequer Bills. In effect, the Govern-

[24] *Cf.* Cannan, "Paper Pound," p. xxxii.
[25] *Cf.* Resumption I., p. 263; II., p. 217.
[26] This was Tooke's view, *vide* "Letter to Grenville," pp. 109-10.

ment paid off some £12 millions (nominal) of Funded Debt by borrowing notes from the Bank of England to the required amount!"[27]

Though Vansittart was ready to admit in 1821 that the depreciation of the pound, three years before, had arisen "from the large loan which the Government had of the Bank, on account of the repeal of the property tax;"[28] in 1818, no such admission was made. When, early in that year, the Chancellor of the Exchequer brought up the motion to continue restriction for a further period, he is reported to have appeared in a state of the utmost despondency,[29] but he unblushingly explained the unfortunate turn of events without reference at all to the subject of Bank loans.[30] As is usually the case, there were other circumstances, which could be adduced, plausibly enough, to account for the fall of the exchanges and the drain of gold.

The close of the war had been followed by a great rush to borrow on the part of Continental Governments;[31] and in the two years 1817 and 1818, it appears that no less a

[27] One of the best criticisms of the Government's post-war financial policy is contained in the Memorandum that Huskisson submitted to Lord Liverpool in February, 1819. "The mystery of our financial system," he wrote, "no longer deceives anyone in the money-market; selling Exchequer Bills daily to redeem funded debt daily, then funding those Exchequer Bills once a year, or once in two years, in order to go over the same ground again; whilst the very air of mystery, and the anomaly of large annual or biennial loans in times of profound peace, create uneasiness out of the market, and in foreign countries an impression unfavourable to the solidity of our resources. . . . In finance, expedients and ingenious devices may answer to meet temporary difficulties; but for a permanent and peace system, the only wise course either in policy or for impression, is a system of simplicity and truth. . . . Whatever surplus of revenue we possess, must be our real sinking fund; be its amount great or small, it will do more for the reduction of debt, for the real stability of public credit, for the character of England abroad, and the strength and ease of the Government at home, than ever can be hoped for by continuing in a system which has all the inconveniences without any of the advantages of concealment, and is liable to all the derangement and expense incidental to complicated machinery without producing any beneficial result, even whilst its movements meet with no interruption." (Yonge, "Life of Liverpool," II., pp. 383-84.)

[28] Parl. Debs. (N.S.) V. 131.

[29] Parl. Debs. XXXVII. 1246.

[30] *Vide ibid.* 1232-35.

[31] *Cf.* Hobson, "Export of Capital," pp. 98-99.

sum than £38·6 millions[32] was raised in this way by France, Prussia, Austria and Russia. It is difficult to decide how much of this money was obtained in London; but, on the basis of estimates submitted to the Committees on Resumption, it seems that the total did not fall far short of £10 millions.[33] Concurrently with the large British subscriptions to foreign loans, foreigners were withdrawing the capital which had been placed in England for safe keeping during the war. There is again no way of gauging exactly the extent of the movement; but we have a guide in the half-yearly returns[34] of the amount of Government stock held by foreigners. Foreign investments in British funds amounted to £17·3 millions in February, 1816; a year later they had dropped to £15·9 millions; and in February, 1818, they stood at £12·7 millions—after this date, the movement seems to have been arrested.[35] We have, therefore, a total sale of about £4½ millions of securities, with a cash equivalent of rather more than £3 millions. In view of the fact that, at this period, the funds tended to monopolise the attention of investors and would certainly be the form of security most likely to find favour with foreigners, we will not be underestimating the withdrawal of capital from the country on this account, if we put the total of £5 millions.

Another circumstance that attracted a great deal of attention was the large importation of corn in the years 1817 and 1818, owing to deficient harvests at home. The figures for the four years 1815-18 are as follows:—1815, £·8 million; 1816, £·9 million; 1817, £6·4 millions; 1818, £10·9 millions.[36] Normally, an increase, in this way, of one item among imports would tend to be offset by a reduction in the importation of other goods. But it so

[32] *Vide* Resumption II. (App. G. 1), pp. 423-24; the distribution was as follows:—

(in million £) £27·7 France, £3·6 Austria,
£ 2·8 Prussia, £4·5 Russia.

[33] *Vide* Resumption II., pp. 6, 103; I., pp. 13-14, 69, 119-20.

[34] Resumption I. (App. 43), p. 354.

[35] Possibly owing to the fall of the exchange.

[36] Resumption I. (App. 40), p. 345.

happened that the under-trading of the years 1815 and 1816 had led to a depletion of the stock of goods on hand; with the result that the heavy imports of corn coincided with a tendency to an *increase* in the imports of other goods.[37]

One other circumstance should be noticed. The conclusion of the war had been followed by a recovery of credit on the Continent.[38] This led to a rise of prices abroad and a consequent relative depreciation of gold that was very favourable to resumption in England. But the movement on the Continent could not continue indefinitely and was actually brought to a stop very abruptly by a shortage of specie.[39] The contraction of credit that followed meant that pressure would be brought on England to remit gold.

The export of capital to the amount of perhaps £15 millions, the importation of nearly £18 millions' worth of corn, and the particular movement of credit on the Continent, taken in conjunction with other circumstances of less importance,[40] give in appearance a more than adequate explanation of the turn of the exchanges and the drain of gold in 1817-18. It is, indeed, impossible to deny that a shift in the trade-balance *was* the proximate cause of the movement of the exchanges and, thence, of the export of gold; but the shift itself has to be accounted for. When the circumstances detailed above are examined a little more closely, they prove to be insufficient in themselves as an explanation of the depreciation of the pound.

Let us consider first the question of the export of capital. In 1792, Great Britain held a subordinate position in the financial system of Europe, the London money-market had yet to come into its own, and the movement of capital was still into and not out of England. In 1815, though the fact was scarcely appreciated at the time, the situation had

[37] Tooke, "History of Prices," II., pp. 23-25.

[38] *Cf.* Hawtrey, "Currency and Credit," p. 274.

[39] A shortage prematurely brought about owing to the efforts, made by countries which had abandoned their gold (or silver) standard during the war, to accumulate a stock of bullion; *cf.* Resumption I., p. 13. There was also, in 1818, an unusually large remittance of bullion to the East.

[40] *Vide* Parl. Debs. XXXVII. 1233.

radically changed. Amsterdam had fallen; and London had not only taken its place as the predominant financial market of Europe, but was able to play the part in a way that dwarfed the earlier efforts of the Dutch city. Industrially and commercially, Great Britain had been making enormous advances, and a growing stream of capital was available for transference abroad.[41] During the war, the transference had been financed by the Government—expenditure abroad on military account averaged £16 millions per annum during the last six years of the war.[42] After the peace, the flow of money had to take a different form: the Government no longer floated war loans at home, and financed exports by spending the proceeds abroad—British investors, instead, subscribed to foreign loans. That there was room for investments of this sort is shown by the Board of Trade returns. These give an export surplus in 'official' values of £25·6 millions in 1815, of £21·8 millions in 1816, of £19·6 millions in 1817, and of £16·7 millions in 1818[43]—the 'real' values would probably be even greater. There is, therefore, abundant ground for concluding that considerable loans could be made to the Continent without causing a movement of gold (except to make a market) and, indeed, without disturbing the existing balance of trade.

Too much emphasis, again, can be placed on the heavy imports of corn in 1817 and 1818. Importations increased, it is true, from £·9 million in 1816 to £6·4 millions in 1817 and to £10·9 millions in 1818: but the corresponding official values[44] were only £·4 million (for 1816), £2·2 millions (for 1817), and £4·0 millions (for 1818). If we compare these latter figures with those of the total imports

[41] *Cf.* Hobson, "Export of Capital," pp. 80, 96-97, 106.

[42] Silberling, "Financial and Monetary Policy," I., p. 227.

[43] *Vide* Appendix E; the amounts being expressed in "official" values, cannot be followed too closely, but do indicate, in a general way, the trend of trade.

[44] Calculated from data in Resumption I. (App. 41), pp. 346-53, and in the "Account of the Rates by which the Official Valuation of the Principal Articles imported into the U.K. is estimated," p. 49.

for each year, we find that the importation of commodities other than corn also increased from £27·0 millions in 1816, to £28·6 millions in 1817, and £32·9 millions in 1818 (in official values). This at once suggests that so far as increased imports were concerned with the outflow of gold, our attention should be directed to importation in general, rather than to that of corn only.

As a result of the previous crisis, trade in 1815 and 1816 had been at very low ebb; merchants, unwilling to risk further losses, were content to sell off the large stocks of goods left on their hands at such prices as they could command. But the tide was bound to turn. In 1817, it was felt that prices had already touched the bottom, and the time had come to replenish depleted stocks: the feeling gathered strength when it was learnt that, owing to a shortage of supplies, importations of produce were below normal. "Under these circumstances," writes Tooke, "there arose a tendency to speculation; and it is quite clear there must in consequence have been an advance of prices and a considerable enlargement of the circulation through the medium of private paper and transactions on credit, independently of any increase of Bank issues."[45] But, as we have seen, the Bank chose just this moment to enlarge its own circulation; the tendency to speculation and the expansion of credit were consequently reinforced. The result is shown in the heavy imports of 1818, which Tooke characterised as being, with reference to the previous state of markets and of prices, of "overwhelming magnitude."[46] The returns show a figure of £36·9 millions, an increase of £6·1 millions on the previous year and a total only equalled before in the exceptional year 1810.[47]

It was not then, the heavy imports of 1818 that were responsible for the depreciation of the pound; but it was the course of currency inflation countenanced by the Bank, that led to the wave of speculation and excessive impor-

[45] "History of Prices," II., pp. 51-52.
[46] *Ibid.* p. 27.
[47] *Vide* Appendix E—exports also increased but to a much lesser extent.

tation;[48] and when, in the latter part of 1818, the monetary crisis occurred in Paris, it merely emphasised the depreciation that had already taken place in the value of the pound. As one critic said; who could doubt that, in 1817, the Bank, by prudently contracting its issues, might have undertaken a general and not a partial resumption of cash payments; and that the influence of the foreign loans, of the large importations of grain and other events of a temporary nature to which the subsequent fall of the foreign exchanges had been imputed by the zealots of the existing system, might have been counteracted by the wise administration of the Bank's affairs, which, at the risk of temporary pressure on the extravagance of mercantile speculation, might have guarded the public at large against the most vexatious oppression, by sustaining the soundness of the currency?[49] "If the Bank Directors," wrote Tooke, "had not unfortunately upon system, disregarded in the regulation of their issues, the indication by which their predecessors, previous to 1797, professed to be guided, they would have been warned [in 1817] to contract, instead of enlarging, their issues. But if the increase of about £700,000 Bank Notes in the first half of 1817 was excessive under the circumstances described, what is to be said for the prudence or propriety of the further increase which took place, to the extent of nearly two millions on the average of the following six months, when all the circumstances tending to make the former amount excessive were

[48] The correspondence between the amount of extraordinary foreign payments and the movements of the exchanges during the war-years was noticed by Lowe in 1822 ("Present State of England," pp. 81-95) and has been examined in detail by Professor Silberling quite recently ("Financial and Monetary Policy," I., pp. 221-33). Both Lowe and Professor Silberling extend their tables to cover the fall of the sterling exchange in 1817-18, and the latter explains how the Bank's carefully accumulated reserve of gold was "quickly drained away in 1818 by an unexpected shift in the commercial balance" (*op. cit.* p. 233). But the propriety of comparing the war and post-war periods seems open to question. There is all the difference between essential war expenditure, and ordinary commercial transactions. Again, during the war, the currency was inconvertible and the exchanges liable to excessive fluctuation: in 1817-18, cash payments had been virtually restored. By the sacrifice of a small part only of its gold reserve, the Bank should have been able, in 1817, to keep the exchanges at par.

[49] Edinburgh Monthly Review II., p. 117.

in full operation? . . . Such an enlargement of the basis of the currency, co-operating with the causes favouring an extension of Country Bank-notes and private paper generally, tended certainly to accelerate the rise of prices of such articles as were in a relative degree of scarcity, and so promote the spirit of speculation and overtrading."[50]

Elsewhere Tooke points out the course that should have been pursued. The Government ought to have taken the opportunity of the comparatively high price of stocks in the summer of 1817 to have diminished, instead of increasing, the Unfunded Debt; and the Bank instead of extending its advances upon Exchequer Bills, at a reduced interest, ought with a view to counteract the effect, which would otherwise be inevitable, of the tendency of British capital to investment in foreign loans, not only *not* to have extended its advances, but to have diminished its existing securities. By an earlier rise in the rate of interest which would have attended such measures, the disposition to investment in foreign loans would have been abated; a good deal of overtrading checked; and the necessity of applying to Parliament in February, 1819, for a prolongation of restriction might have been avoided.[51]

Though the rival claims of a silver standard and of bimetallism were put forward, the restoration of the gold standard, for which definite provision was made in 1819, was in fact the only policy seriously contemplated, and was undoubtedly the wisest course that could have been taken at that time. Nevertheless, it was inevitable that the switch-back variations that had occurred in the value, not only of the paper pound, but also of gold itself, should have drawn attention to the imperfection of that metal as a permanent standard of value. Two proposals particularly deserve notice—the first, while retaining a gold-standard currency, aimed at providing compensation for variations in its value; the second and more radical,

[50] "High and Low Prices," I., pp. 155-56; *cf.* Parl. Debs. XL. 682-83 (Peel).

[51] "History of Prices," II., p. 52.

frankly advocated the adoption of a "managed" currency.

Lowe appoached the matter from the point of view of parties to a long-term contract. In all contracts of duration, he realised, it was of much more importance to look to the value than to the numerical amount of a given sum of money: and since the progress of statistics and the multiplication of official returns within the previous half-century, had supplied data which made practicable, in his opinion, the construction of satisfactory Index Numbers, he anxiously recommended that money contracts should be "corrected" when necessary, by reference to such a Number.[52] The adoption of a sliding scale for wages would, he pointed out, prevent disputes between employers and employees; it would relieve the latter from the humiliation normally attending a reduction of wages, and it would guide the former to a fair advance when prices were rising.[53] The regulation of rents in the same way, would embody the very principle that had already led to the extensive adoption of "Corn Rents"—but would do it more effectively:[54] and a table exhibiting from year to year the power of money in purchase would give to annuitants and other contracting parties, the means of maintaining an agreement, not in its letter only, but in its spirit, and of conferring on a specified sum uniformity and permanency of value.[55] Lowe also thought that the fixing of the purchasing power of the interest on the National Debt, thus removing all risk of fluctuation (in either direction, of course), might be legitimately combined with a reduction in its amount.[56]

This scheme, neglected in its day, received high praise from Jevons,[57] who considered that the only real difculty would be that of deciding upon the proper method of constructing the Index Number. "Whatever method

[52] "Present State of England," pp. 276-78.
[53] *Ibid.* pp. 281-83.
[54] *Ibid.* p. 284.
[55] *Ibid.* p. 279.
[56] *Ibid.* pp. 288-89.
[57] "Money and the Mechanism of Exchange" (1875), pp. 328-33.

were adopted, however, the results would be better than if we continued to accept a single metal for the standard, as we do at present. . . . Such a standard would add a wholly new degree of stability to social relations, securing the fixed incomes of individuals and public institutions from the depreciation which they have often suffered. Speculation, too, based upon the frequent oscillations of prices, which take place in the present state of commerce, would be to a certain extent discouraged. The calculations of merchants would be less frequently frustrated by causes beyond their control, and many bankruptcies would be prevented. Periodical collapses of credit would no doubt recur from time to time, but the intensity of the crises would be mitigated because, as prices fell, the liabilities of debtors would decrease approximately in the same ratio."

Lowe proposed to let the value of money fluctuate unchecked but to neutralise its vagaries by the use of an Index Number: Thomas Attwood more logically schemed to stabilise the value of money itself. He approached the question from rather a different angle. The prosperity of all countries, he found, depended principally upon the ready and facilitous exchange of capital for industry, and of consumption for production.[58] This, he said, was the whole secret of *markets* and *demand,* which some members of the House of Commons thought so difficult to be obtained. They seemed to think that markets were some strange kind of unintelligible, unmanageable things, which came from some foreign countries, capriciously enough, and took off our manufactures and gave us riches in exchange. It was a delusion. There were no markets whatever in a country but such as were composed by the wants of its inhabitants, and if it was wished to increase those markets, it could only be done by increasing the employment and facilitating the expenditure of the population.[59] In times of depression and distress, he

[58] "Creation of Money," p. 7.
[59] *Ibid.* p. 24.

pointed out, the trouble was not that there was a shortage of food or clothing; quite the contrary. What was faulty was the medium by the means of which all food and clothing were divided, exchanged, distributed and consumed.[60] It was, therefore, the duty of the Government to preserve the circulating medium at all times equivalent to its purposes: the increase of population, or the increase of science and productive powers, or the diminution of confidence and of the moral [i.e. psychological] powers of creating a circulation, might from time to time require double creations or facilities from the Government; and if those creations or facilities were neglected, nothing but distress and ruin could ensue.[61]

Attwood was keenly aware of the adverse effects of deflation on production, of which striking example had been given in the events of the years 1813-17. "The capitalist who converted his capital into bank-notes four years ago," he wrote in 1817, "is now possessed of double[62] the amount of real property that he was possessor of, even though he should have locked them up in a chest! They have produced him a profit of 25% as a mere reward of his indolence, without any kind of labour, risk or exertion! Idleness has been rewarded, and labour has been ruined. . . . Does not this account for the discharge of labourers and for the diminution of that production upon which the existence of the country depends?"[63] It was the contractive action, he says again, upon the quantity and activity of the circulating medium which, however occasioned, had been the main operative cause in producing the stagnation of system, and all the miseries and distresses with which it had been attended.[64] If the currency had not been contracted, the expenditure of the Government would have been replaced by increased individual expenditure, and thus the soldiers and sailors and artificers

[60] "Observations," p. 52.
[61] *Ibid.* p. 35; *cf. ibid.* pp. 6-7.
[62] There is, of course, some exaggeration here, but it does not affect the force of the argument.
[63] "Creation of Money," p. 10.
[64] *Ibid.* p. 12; *cf. ibid.* p. 98.

of the war would have found ample employment in the productive occupations of peace.[65]

What, then, were Attwood's actual proposals? He advocated, first, a little inflation, in order to put the economic organisation of the country on its feet again; and recommended the conversion of £10 millions of Funded Debt into currency[66]—subject, however, to the proviso that the process was not carried further than would suffice to employ the whole labourers of the kingdom at the usual wages to which they had been accustomed.[67] Since the price of bullion would necessarily rise with the prices of other commodities, the resumption of cash payments at the old rate would be quite impossible. Attwood, therefore, proposed to scrap the old system and to supersede the Bank's issues by a currency of Treasury Notes. "The grand object is to obtain a new kind of circulating medium to counteract the defects and dangers of both bank-notes and bullion, and this we should effectually obtain by issuing national instruments, clothed with all the powers of coin of the realm, as the prices of labour, or the state of the different money markets of the country might require."[68] There could be no possibility of this power of issuing treasury-notes being abused by the Commissioners entrusted with the duty, since they would be obliged to act upon certain legislative provisions from which they could not depart. Attwood suggested that the issue should be regulated according to an Index Number of agricultural wages, supplemented by regard to the movement of the market rate of interest.[69] "By a system of this kind, the circulation might be always kept equal to its purposes, and the country might always be preserved in

[65] "Creation of Money," pp. 15-16.

[66] This, as we have seen, was actually done (and Trade *did* revive); but it was only justifiable on the quite unwarranted assumption that permanent devaluation was going to take place.

[67] "Creation of Money," p. 20; *cf. ibid.* p. 45.

[68] "Observations," p. 142.

[69] *Ibid.* pp. 166, 205; the adoption of Lowe's Index Number of General Prices as the criterion would have been a distinct improvement, and would bring Attwood's scheme into line with recent thought on this subject.

a high degree of prosperity. The prices of bullion would be left to find their own level and would accommodate themselves like all the other things to the wants and demands of men, without forcing the wants and demands of men into an arbitrary conformity with the prices of bullion. The fluctuations of price to which gold like all other things is naturally subject, would act upon insensible masses of metal, instead of being forced to act upon life and flesh and blood."[70]

Despite the general soundness of Attwood's contentions and the abstract merits of such a currency system as he advocated, there could be no question of its adoption in 1819. A public that was incapable of understanding and bankers that were incapable of administering Ricardo's Ingot Plan, could have no use for Attwood's more complicated scheme. Indeed, Attwood's own comprehension of the subject was far from complete, and his argument is often vitiated by faulty reasoning. His scheme, however, has considerable interest as an early contribution towards the solution of the problem of a stable currency.

[70] "Observations," pp. 147-48.

## VII

### REINTRODUCTION OF GOLD COIN

We have seen that the Resumption Act of 1819, which was founded on the Reports of the Committees of Secrecy, made provision for a system of graduated bullion payments, pending the complete restoration of cash payments on May 1st, 1823. The details were as follows:—between February 1st and October 1st, 1820, the Bank was to pay in standard gold for notes tendered to an amount of not less than the value of 60 ounces, calculated at the rate of not more than £4 1s. 0d. and not less than £3 19s. 6d. per ounce; between October 1st, 1820, and May 1st, 1821, such payments were to be made in gold at the rate of not more than £3 19s. 6d. and not less than £3 17s. 10½d.; between May 1st, 1821, and May 1st, 1823, such payments were to be made in gold at the rate of £3 17s. 10½d. Payment was to be made in ingots of 60 ounces assayed and stamped; but on and after May 1st, 1822, the Bank had the option (and this on May 1st, 1823, became an obligation) of paying in coin. At the same time, the prohibition on the melting and export of coin was withdrawn.

This scheme of bullion payments represented the partial adoption of a plan proposed by Ricardo. The latter had first indicated his views as to the currency policy that ought to be adopted when restriction came to an end, in an Appendix to the 4th edition of his tract on the "High Price of Bullion," published in 1811. Five years later, when resumption had become a more immediate possibility, he dealt at rather greater length with the same

subject in his "Proposals for an Economical and Secure Currency." And again in 1819, as one of the principal witnesses before the Committees on Resumption, he was given a further opportunity of explaining his views. These can be briefly summarised. Though keenly sensible of the need of stability in the standard of value, he had no belief in the practicability of attempts to regulate the currency by reference to the "mass of commodities"—"gold and silver are subject to greater variations than it is desirable a standard should be subject to; they are, however, the best with which we are acquainted."[1] But the adoption (or re-adoption) of a gold standard did not imply the re-introduction of a gold currency. In a letter to Sinclair, Ricardo wrote: "I agree with you on the benefits resulting from a paper instead of a coin circulation and *I never wish to see any other established in this country.*"[2] His arguments were the obvious ones: (a) the retention of the paper circulation would save the country the unnecessary expenditure of many millions of pounds on the purchase of gold; (b) the country would be spared the expenses of coinage and the annual loss due to wear and tear of coin in circulation; (c) in addition, the currency could be re-attached to the gold standard as soon as the value of the paper pound (by a reduction, relatively or absolutely, of the note circulation) had been raised to par, and the Bank would be saved the necessity of spending time and expending their resources in accumulating bullion against all the smaller notes in circulation.[3] To ensure that the paper currency should conform to the metallic standard, the notes were to be convertible in bulk into bullion and vice-versa. "A well-regulated paper currency is so great an improvement in commerce that I should greatly regret if prejudice should induce us to return to a system of less utility. The introduction of the

1 "Economical and Secure Currency," pp. 400-2.

2 Letters to Trower, No. 36.

3 *Vide* "High Price of Bullion," pp. 300-1; "Economical and Secure Currency," pp. 404, 407; *cf.* McCulloch in Edinburgh Review XXXI., pp. 66-67.

precious metals for the purposes of money may with truth be considered as one of the most important steps towards the improvement of commerce and the arts of civilised life; but it is no less true, that with the advancement of knowledge and science, we discover that it would be another improvement to banish them again from the employment to which, in a less enlightened period, they have been so advantageously applied."[4]

Ricardo did not entirely win over the Resumption Committees to his views; and though these gave in their Reports a full and sympathetic statement[5] of his argument, they expressed guarded opinions as to the abstract virtues of a system of bullion payments over one of payments in specie.[6] However, in recommending his plan as a means of tiding over the transition period before full resumption would, under any circumstances, be advisable, and in thus giving it a trial for three or four years, they conceded all that Ricardo had asked for,[7] since he was convinced that a short trial would be sufficient to prove the merits of the system.

The Resumption Committees reported in May, 1819; in May, 1821, the payment of notes in coin was restored. In the next few pages an attempt will be made to discover why events took this course; but it can be stated at once that Ricardo's Ingot Plan was not rejected because it failed in practice—the plan was, in fact, never tried. The success of even the best thought-out scheme depends to a great extent on the efficient co-operation of those who are to put it into practice; and it lay with the Directors of the Bank of England, a body of men that Ricardo did not trouble to placate, to make or mar the Ingot Plan. Partly from attachment to routine, partly through incompetence, the Directors took the latter course, and, by non-co-operation, effectively wrecked the scheme. Under more favour-

[4] "Economical and Secure Currency," p. 404.
[5] Resumption I., pp. 12, 15; II., pp. 16-18.
[6] *Vide* Resumption I., p. 17; II., pp. 20-21.
[7] *Vide* "High Price of Bullion," p. 300; *cf.* Letters to McCulloch, No. 8.

able conditions, there does not seem any reason why it should not have succeeded.[8]

There is no ground, for instance, for supposing that any general preference existed for a gold currency rather than a paper one: after twenty years of restriction, people had naturally become accustomed to carrying note-cases instead of sovereign purses.[9] Baring, indeed, in his evidence before the Resumption Committee, expressed the opinion that a new and perfect coin, such as the sovereign, would exclude £1 and £2 notes, whether they were by law excluded or not: but, on the other hand, it was remarked that, at the time of the partial resumption in 1817, people had seemed indifferent to gold—in fact, instead of coming to the Bank for gold, they brought their gold to the Bank; and that this state of things had lasted till the turn of the exchanges made the export of gold profitable.[10] The general opinion in 1819 was that there would not be any large demand for gold for internal circulation,[11] supposing cash payments to be restored; and this actually proved to be the case. Liverpool stated in the House of Lords in February, 1822 (that is to say, nine months after cash payments had recommenced), that people showed "a decided preference for Bank-notes."[12] The return to a gold currency was not, therefore, made in response to a popular demand for sovereigns.

There is, again, no reason for supposing that the ostensible injustice of requiring the presentation of a large amount of notes in demand for gold, thus making an apparently unfair discrimination between the rich man and the poor man, had any influence on the issue. The point was inevitably seized on by opponents of the measure,[13] but their contentions had been answered in advance in the

[8] *Cf.* McCulloch, "Money," p. 509.
[9] *Cf.* Cobbett "Paper against Gold," p. 5-6.
[10] Resumption I., p. 12.
[11] *Cf.* Resumption II., pp. 14-15; Parl. Debs. XL. 618 (Liverpool); Edinburgh Monthly Review II., p. 112.
[12] Parl. Debs. (N.S.) VI. 382.
[13] *Vide* Parl. Debs. XL. 733; Edinburgh Monthly Review II., pp. 114, 118-19.

Report of the Commons' Resumption Committee: "your Committee remark that the object of the plan which they recommend is by securing a control over the quantity of circulating medium, to regulate the value of the whole, and to maintain paper on a par with gold: while this object is effected, the holder of notes to whatever amount has security for their value."[14]

The question of the forgery of Bank-notes is rather more intricate. Writing at the end of 1821, McCulloch said: "the unprecedented and alarming increase of the crime of forgery[15]—a crime which was scarcely known in this country previously to the Restriction Act—and the general belief that it could not be prevented otherwise than by the suppression of the smaller notes of the Bank of England, appears to have been the sole reason why a plan which promised to be productive of so many advantages has been abandoned and the country again subjected to the heavy expenses of a metallic currency."[16] There is reason, however, to doubt the truth of this statement as it stands; and, in addition, McCulloch himself considered that other ways of preventing forgery were open, and that the re-introduction of gold coin would not only *not* be effective in preventing the forgery of notes but would give a stimulus to the issuing of base coin.

There was evidently at this period a widespread feeling that the Bank Directors did not take sufficient trouble to guard against forgery in the fabrication of their notes. "The present engraving of Bank of England notes," wrote McCulloch in 1818, "is so very rudely executed that there is scarcely a bungling mechanic who cannot imitate them with considerable exactness. That the Bank should for so long a period have persisted in issuing notes so very miserably executed is certainly a good deal extraordinary; but now that public attention has been awakened

[14] Resumption I., p. 17; *cf.* Resumption II., pp. 19-20; Parl. Debs. XL. 746-47 (Ricardo); Edinburgh Review XXXI., p. 71 (McCulloch).

[15] For accounts of the prosecutions, convictions, executions, etc., for forgery, *vide* Parl. Debs. XXXVIII., App. p. xxxix.

[16] "Money," p. 510; *cf.* Parl. Debs. (N.S.) IV. 1315-16 (Vansittart), V. 505 (Liverpool).

to the subject, it cannot be doubted that steps will be taken to remove this stigma from our monetary system. That it is practicable to engrave notes in such a manner as to render forgery a work of extreme difficulty, appears from the concurring testimony of the ablest artists to be established beyond all doubt."[17] Three years later, McCulloch was again writing in the same strain: "it is now nearly twenty-five years since Bank of England paper has constituted the legal tender currency of the country, and during the whole of that period and for many years previously, there has been *no visible improvement in its manufacture*. Apparently satisfied with the securities derived from private marks, the directors have continued to issue notes engraved in so wretched a style, and which afford so few distinguishing peculiarities or points on which the eye can rest when comparing them with each other, that they almost seem to have been intended to stimulate the efforts of forgers!"[18] In Ireland and the U.S.A. practically unforgeable notes had been devised; and what had been done in Dublin or New York might equally well be done in London. "We do not, therefore, think that the plea of its being necessary to the prevention of forgery, forms any valid reason for the adoption of the measure now in progress for withdrawing the smaller notes of the Bank of England and reverting to specie payments. The prevention of forgery might have been better accomplished by obliging the Bank of England to improve the fabric of its notes."[19] Much was said in Parliament to the same effect.[20] Elsewhere, again, we find the statement that the forgery of Bank of England notes was so easy that there were not less than 10,000 persons in the country who were able to engrave successful imitations; and nine-tenths of these were needy and many of them in distressed circumstances.[21]

[17] Edinburgh Review XXXI., pp. 73-74.
[18] "Money," p. 510.
[19] *Ibid.* p. 511.
[20] *Vide* Parl. Debs. XXXVIII. 276, 282, 680, 694; (N.S.) IV. 1325.
[21] Society of Arts Committee's Report, p. 14.

On the other hand, the Bank was very completely exonerated by the Forgery Commission, who attributed the prevalence of forgery to the culpable negligence of the police authorities and to the lack of discrimination on the part of the public. They stated that, after an examination of all the projects which had been formerly submitted to the Bank for a change in the form of their notes, they had come to the opinion that not one of these could have been adopted with such a prospect of solid advantage to the public as would have compensated the evils necessarily attendant upon the change.[23] Nevertheless, the Commission undertook extensive investigations into the process of note-manufacture, and finally recommended the adoption of the form of note invented by Applegath as affording very considerable obstacles to successful forgery.[24] The Commission made their final Report in February, 1820; but there was delay in getting the new note-issue prepared,[25] and when Vansittart introduced the Cash Payments Bill in 1821, the old form of note still held the field.[26] The fact that cash payments were restored *before* the new issue was made, is one reason for thinking that the forgery question did not play a very large part in bringing about a return to a gold currency.

But supposing the technical difficulties in the way of

[23] Interim Report, p. 304.

[24] Final Report, pp. 399-400. Dr. Bonar in his article on Ricardo's Ingot Plan mentions that the Committee of Experts, appointed by the Society of Arts, had "declared the feasibility of almost unforgeable notes" (Economic Journal XXXIII., p. 295). The method of manufacture proposed by this Committee must almost certainly have been the "other plan" mentioned by the Forgery Commission in their Final Report, "the full and most deliberate consideration" of which had been partly responsible for the long interval between their two Reports. The Commission evidently found a flaw in the scheme.

[25] Parl. Debs. (N.S.) IV. 286 (Vansittart).

[26] *Vide ibid.* 1315-16 (Vansittart): Smart's statement that "the convictions of the previous six months [*i.e.*, the last half of 1820] showed that forgery was still increasing and that Applegarth's (*sic*) invention of a note which would render imitation almost impossible, was, if not a failure, not yet perfected" ("Economic Annals," II., p. 43) seems quite mistaken. Since the new note was not current in 1820, the increase of forgery in the latter part of that year was primarily an argument for hastening the introduction of the new issue.

the production of a sufficiently unforgeable note to have been at this time insurmountable, the re-introduction of gold coin would only have been justifiable on the assumption that (a) all the £1 and £2 notes would be withdrawn,[27] (b) the energies previously expended on the forgery of small notes, would not be transferred to the forgery of notes of higher denomination,[28] (c) the probable decrease in the forgery of notes would not be counterbalanced by an increase in the issuing of base coin.[29] There was no ground for assuming that any of these conditions would be fully satisfied.

It was Ricardo, however, who went to the root of the matter. "The Bank Directors," he said, "urge in defence of the measures which they have pursued the complaints which were made against them on account of the frequent executions for forgery, which rendered it indispensable that they should withdraw the one-pound notes from circulation for the purpose of replacing them with coin. If they could not substitute a note better calculated to prevent forgery than the one they have hitherto used, this plea is a valid one, for the sacrifice of a small pecuniary interest could not be thought too great if it took away the temptation to the crime of forgery, for which so many persons were annually executed; but the excuse comes with bad grace from the Bank of England, who did not discover the importance of preventing forgery by the issue of coin till 1821, after they had made such large purchases of gold that they were under necessity of applying to Parliament for a Bill to enable them to issue coin in payment of their notes, which by Mr. Peel's Bill they were prevented from doing till 1823. How comes it that they did not make the discovery in 1819, when the Committees of Lords and Commons were sitting on Bank payments? Instead of being eager at that period to commence specie payments, they remonstrated in a manner

[27] *Cf.* Parl. Debs. (N.S.), IV. 1317 (Baring).
[28] *Cf.* Edinburgh Review XXXI., pp. 73-74 (McCulloch).
[29] *Cf.* McCulloch, "Money," p. 511; Parl. Debs. (N.S.) V. 497 (Lansdowne).

which many thought unbecoming,[30] against any plan of metallic payments which did not leave the uncontrolled power of increasing or diminishing the amount of currency in their hands."[31] In 1820, when the Bank Directors had their vaults full of gold, the prevalence of forgery obviously influenced their policy, but the crux of the matter lay in the Bank's stock of gold.[32] To understand how and why the Directors came to increase their holding so considerably, we have to look at the course taken by events in 1819 and the following two years.

The Committees on Resumption were appointed at rather a critical moment. At the end of 1818, the fever of commercial speculation had worn itself out; in January, 1819, prices were breaking and trade was noticeably slackening; and in February, when the Committees began to sit, such was the state of nervousness as to the future, that business was brought practically to a standstill.[33] It only needed the imprudent and unreasonable remonstrances of the Bank against the conclusions of the Committees, to create a general alarm. When the Resolutions on Resumption were finally adopted, something approaching a panic prevailed in the City;[34] and this soon spread to the provinces, where the significance of the Ingot Plan was, if possible, even less understood.[35] In vain Ricardo insisted that the reduction of the Bank of England's note-issue by perhaps £1 million in four years would be scarcely noticed.[36] In vain Castlereagh protested that the supposition that the Government would immediately repay its loans from the Bank and that the whole amount would be suddenly withdrawn from the circulation, was completely erroneous.[37] A conviction had spread that the passing of the Resolutions would mean a rigorous restriction of

30 *Vide* Resumption II. (App. A. 8), p. 314; Parl. Debs. XL. 601-4.
31 "Protection to Agriculture," pp. 469-71.
32 *Cf.* Parl. Debs. (N.S.) VII. 940 (Ricardo).
33 Parl. Debs. (N.S.) V. 133 (Vansittart).
34 *Cf.* Ricardo's Letters to Trower, No. 25.
35 *Cf.* Colchester's Diary, III., pp. 76-77.
36 Parl. Debs. XL. 746.
37 *Ibid.* 795-96; *cf. ibid.* 687 (Peel).

credit and a heavy fall in prices. If, said one member of Parliament, the proposed plan should receive the countenance of the House, every prudent banker would limit his issues, and every prudent merchant and manufacturer his transactions; and the consequence would be general embarrassment and distress.[38]

Under these circumstances, markets quickly gave way. The widespread expectation that prices would fall, was naturally quite sufficient to bring the fall about without any action on the part of the Bank of England or the Government. On February 27th, 1819, the Bank of England's note circulation was £25·1 millions; on August 31st it had risen to £25·3 millions.[39] During the same period, the Government's obligations to the Bank were also increased.[40] Yet, in February the price of gold was 83/-, and in August it had dropped to 77/10½.[41] These circumstances led Tooke to urge that "Peel's Bill must be pronounced to have been wholly inoperative in producing any contraction, none having occurred in the amount of the Bank's circulation;"[42] and to argue that it was the large sums due from abroad for the unusually extensive exports of 1818, and the curtailment of imports owing to the reaction from the speculative frenzy of the previous years, to the glut of foreign products in the market and to the closing of the ports to corn, that combined to restore the value of the currency.[43] At the same time, he pointed out that a considerable contraction of Country Bank notes took place in 1819—a contraction "quite adequate to have produced the restoration of Bank-notes to a par with gold: supposing, therefore, that no measures were taken by the Bank Directors expressly to defeat that tendency, the restoration of the value of the currency to its standard was inevitable without the intervention of Peel's Bill."[44] But

[38] Parl. Debs. XL. 753-54; *cf. ibid.* 762, 785.
[39] *Vide* Bank Charter Committee's Report (App. 5), p. 510.
[40] *Cf.* Tooke, "Letter to Grenville," p. 17.
[41] *Vide* Bank Charter's Committee's Report (App. 96), pp. 586-87.
[42] "Letter to Grenville," p. 15.
[43] *Ibid.* pp. 21-22.
[44] "High and Low Prices," I., p. 203.

though a revulsion from previous overtrading was inevitable, it is impossible to dissociate the contraction of the Country Bank circulation from the passing of "Peel's Bill" and from the anticipations that measure gave rise to; and it is more profitable to trace the effect of this restriction of credit on market conditions and the exchanges, than the relation of commercial balances to the flow of gold.

The deflationary movement started by the Country Banks might have worked itself out, if the Bank of England had remained inactive. But in the latter part of 1819, the Bank contracted its note-issue, a step that completely re-established the value of the pound. At the beginning of 1820, then, the value of the currency had been restored. It rested with the Bank of England to determine whether, by continuing its circulation for the time being at the existing level, the process of deflation should be gradually arrested; or whether, by reducing its issues, the contraction of credit should be allowed to proceed to further lengths. In view of the fact that the country was already suffering from the fall of prices, that the exchanges were favourable, and that there was no necessity at this date to begin to accumulate gold against cash payments, there is no doubt as to the course the Bank should have pursued. What did they actually do? In the period 1819-22, says Tooke, "the Directors were simply passive[45] in the regulation of their issues following the routine by which they were guided previously to 1819. . . . From the fall in the market rate of interest, and the little inducement to speculation, the applications for discount of mercantile bills fell off rapidly . . . and as the Government, from the improved state of their finances,[46] required no further advances from the Bank . . . there remained no medium for maintaining the circulation of Bank-notes but the purchase of bullion and

[45] *Cf.* the statement of Pearse, a Bank Director, in Parliament—Parl. Debs. (N.S.), VII. 954.

[46] They had merely adopted the device of Sinking Fund Loans!

possibly a reduction of the Government balances. It is owing to these two channels for the issue of notes from the Bank that the circulation was not more reduced."[47] Adhesion to "the routine by which they were guided previously to 1819" meant that the Directors refused to discount at a lower rate than 5%.[48] Since, in 1820, prices were steadily falling, a money rate of 5% was equivalent to a much higher real rate, and was effective in choking off borrowers. At the same time, the Government were busily engaged in paying off their loans from the Bank[49] in accordance with the stipulations of the Resumption Resolutions. The reduction of the Bank's issues under these heads was off-set to some extent by their purchases of gold but not sufficiently to prevent a drop in the note circulation.[50] This contraction of credit by the Bank led in turn to another reduction of the issues of the Country Banks.[51] By the end of 1820, prices had fallen still further, the country was plunged in distress—and the Bank was becoming deluged with gold! Early in 1821, as we have seen, it was thought expedient to abandon the Ingot Plan and to restore cash payments.

If the Bank acted foolishly, it was not because the right line of conduct had not been pointed out to them. In the debate on the Resolutions, the probable course of events had been foreseen. "What was called a scarcity of money," said Parnell, "did not depend on the numerical amount of the circulating medium but upon the state of the markets. If such a scarcity were to occur, it would be owing to the effect of the plan on the markets and on

[47] "Letter to Grenville," p. 11.

[48] *Vide* Appendix D (Note).

[49] *Cf.* Vansittart's statement—Parl. Debs. (N.S.) IV. 1315-16; and Appendix D (Table).

[50] Tooke holds that the circulation progressively increased during 1820-22, but he arrives at this result by including *all* the gold coin issued in the Bank's circulation ("Letter to Grenville," p. 13). Since the issue of sovereigns greatly exceeded the number of £1 and £2 Bank of England notes withdrawn, part of the issue must have gone to take the place of small Country Bank-notes, or been put away into hoards. Tooke's figures are therefore misleading. (*Vide* Appendix D.)

[51] *Vide* Appendix D.

commercial credit,[52] and not to its effect in diminishing the circulating medium. The plan might certainly affect credit by diminishing discounts—this was the only bad effect to be apprehended from it; but if the Bank acted wisely and did not diminish their discounts or their paper, but rather increased both for some time to come, no harm would result."[53] Ricardo said that he feared the Bank would reduce its issues too rapidly, and he advised them not to buy bullion but to sell, since every sale would improve the exchanges.[54] Advice was, however, wasted on Directors who were "quite passive" as a matter of principle.

But not only did Ricardo have the mortification of seeing his plan abandoned owing to the action of the Bank, he was also blamed for the results of its abandonment. "In the country, I find much error prevailing on the subject of currency; every ill which befalls the Country is by some ascribed to Peel's Bill and Peel's Bill is as invariably ascribed to me. . . . I proposed a scheme by the adoption of which there would not have been a demand for one ounce of gold either on the part of the Bank or of anyone else, and another is adopted by which both the Bank and individuals are obliged to demand a great quantity of gold—and I am held responsible for the consequences. If I had been a Bank Director and had had the management of this currency question, I maintain that I could have reverted to a metallic standard by raising money only 5 per cent."[55] In the House of Commons, he spoke to the same effect: "the Bank had entirely mismanaged their concerns in the way in which they had prepared for the resumption of cash payments; nothing was more productive of mischief than their large purchases of

[52] As Ricardo rather aptly put it, "the measure of 1819 was chiefly pernicious to the country on account of the unfounded alarms which it created in some men's minds and the vague fears that other people felt, lest something should occur, the nature of which they could not themselves define" (Parl. Debs. (N.S.) VII. 952).

[53] Parl. Debs. XL. 759-60.

[54] *Ibid.* 745.

[55] Letters to Trower, No. 51; *cf.* Parl. Debs. (N.S.) V. 137-38.

gold. . . . The bill he had always considered as an experiment to try whether the Bank could not be carried on with advantage to the general interests of the country upon the principle of not being called upon to pay their notes in coin but in bullion; and he had not the least doubt that if the Bank had gone on wisely in their preliminary arrangements—if, in fact, they had done nothing but watch the exchanges and the price of gold and had regulated their issues accordingly, the years 1819, 1820, 1821 and 1822 would have passed off so well with the working of the bullion part of the plan that Parliament would have continued it for a number of years beyond the time originally stipulated for its operation. . . . It was said that the Bank had, since 1819, kept up their circulation to the same level as before 1819, and that, therefore, they had not caused the favourable exchange and the influx of gold. He denied this—he denied that their issues were as large now as in 1819; but allowing for the sake of argument that they were so, he should still make it a matter of charge against the Bank that they had not increased their issues so as to operate on the foreign exchanges and prevent the large importations of gold. . . . After their remonstrance[56] to the Committee and to the Chancellor of the Exchequer on the consequences of restricting their issues, why did they promote the evil they deprecated—why make those purchases for amply-filled coffers—why take a step so inevitably leading to mischief? He could ascribe it to one cause only, namely, that they were ignorant of the principles of currency and did not know how, at such an important moment, to manage the difficult machine which had been entrusted to them."[57]

In March, 1821, the Cash Payments Bill was brought in. Vansittart explained to the House of Commons that the circulation of the country was far from abundant; the

[56] Among other things, they said that they could not venture to advise an unrelenting continuance of pecuniary pressure upon the commercial world, of which it was impossible for them either to foresee or estimate the consequences (Parl. Debs. XL. 603)!

[57] Parl. Debs. (N.S.) VII. 939-41; *cf.* Letters to McCulloch, No. 27.

Bank, he said, had withdrawn £2 millions of notes in the course of twelve months, and the Country Banks had decreased their issues to a possibly even greater extent. At the same time, the accumulation of gold had become so rapid that it was disorganising the monetary systems of other countries and affecting our foreign trade. He proposed as a remedy that the Bank should be permitted to pay their notes in cash.[58] Baring naturally objected that the issue of coin by the Bank of England could scarcely relieve the situation, since gold would merely be substituted for paper, and the circulation remain unchanged in amount.[59] But though Vansittart also mentioned the prevalence of forgery as an additional reason for resuming cash payments, subsequent events seem to indicate that his main purpose was to increase the circulation and he actually thought he had discovered a means of achieving this end. The Bill went through, and the Bank in the course of the year substituted some £6 millions of sovereigns and half-sovereigns for paper; but since the Directors' general policy of "passivity" remained unchanged, the total circulation was not materially increased or the country much benefited.

In 1822, therefore, the Government made a further move, and in explaining their policy to Parliament, threw an interesting light on the conduct of the Bank. They proposed, in fact, to take a loan of £4 millions from that establishment. Liverpool explained that he had thought the demand of the Bank in 1819 for the repayment of £10 millions by the Government "unnecessarily large"; but that he had been reconciled to it "by what passed in the Committee with respect to the probability that, in the event of the general circulating medium being found insufficient, the Bank would lower their rate of discount. It was allowed on all hands that if it should turn out that the circulating medium was inadequate to the wants of the country, it would be better to increase it through the

[58] Parl. Debs. (N.S.) IV. 1315.
[59] *Ibid.* 1317.

medium of discounts than by a further issue of Exchequer Bills. . . . It does appear very extraordinary to His Majesty's Government, and I imagine must appear very extraordinary to your Lordships and to the public, that at this moment when the market rate of interest is not more than 4 per cent., the Bank refuse to discount at a lower rate than 5. What renders the circumstance the more inexplicable is the fact which is known to everybody that from a period of three or four months after the presentation of the report of the Bullion Committee of 1819, the course of the exchange with foreign countries has been highly favourable to this country. An immense quantity of treasure, therefore, must have been flowing into the coffers of the Bank of England. The quantity of gold thus locked up by the Bank and their refusal to discount at less than 5 per cent. must certainly be very injurious to them, and if to them, to the public at large, more especially to that distressed part of the public, the agricultural interest. Finding it impossible, however, to induce the Bank to lower the rate of interest on their discounts, conformably with the expectations held out in 1819, His Majesty's Government resolved on borrowing £4 millions on Exchequer Bills from the Bank with a view to applying that sum in some manner to the relief of the country." Liverpool was very emphatic that the money was *not* wanted for the supplies of the year—the only object was "to extend and quicken the circulation." If the Bank, he said, had consented to lower the rate of discount, such a measure might not have been required; but as the Bank still persevered in their refusal to lend at a less rate than 5 per cent., the measure was necessary.[60]

The Government's proposal was, of course, a perfectly sound one under the circumstances. There seems, however, to have been some hitch in carrying it into effect, since the Bank's assistance to the Government actually decreased instead of increasing; and, consequently, the

[60] Parl. Debs. (N.S.) VI. 714-16; *cf. ibid.* 381-83, and VII. 157 (Castlereagh).

Bank of England's circulation was not prevented from lapsing to a lower level in 1822 than in 1821.[61] But there are indications that the situation of the Country Banks was improving, and the Government's attempt may possibly have been indirectly beneficial. It is interesting to note that Tooke considered it "a new and somewhat dangerous doctrine to contend that Government ought to enlarge or diminish the unfunded debt, not according to views strictly financial, but according to their notions of the proper amount of the circulating medium."[62]

How is the conduct of the Bank in these years to be explained? They certainly did not act in the interests of the country at large; yet, the Bank proprietors had equal cause for complaint. Ricardo had pointed out to the Directors in 1819 that it was all to their advantage to keep a paper currency, which cost them little, and not to go back to a gold one which would cost them much.[63] In fact, McCulloch, writing at the end of 1821, suggested that if Ricardo's plan were again adopted, the public should share in the profits made by the Bank.[64] Yet, the Directors hurried on the reintroduction of gold coin! Why, again, should the Bank in 1822 refuse to discount commercial bills at less than 5 per cent., and yet be (presumably) willing to lend to the Government at 3 per cent.? It is true that Tooke approved their action on the ground that it would have been difficult for so unwieldy a body to abandon suddenly its established habits without risk;[65] but he does not give this opinion very confidently. The only adequate explanation of the Bank Directors' extraordinary conduct is that suggested by Ricardo—that they "did not understand the subject of currency." "I much regret," he wrote in July, 1821, "that in the great change we have made from an unregulated currency to one regulated by a fixed standard, we had not more able men to

[61] *Vide* Appendix D.
[62] "History of Prices," II., p. 106.
[63] Parl. Debs. XL. 743.
[64] "Money," p. 512; *cf.* Ricardo's Letters to Malthus, No. 35.
[65] "Letter to Grenville," p. 11.

manage it than the present Bank Directors. If their object had been to make the revulsion as oppressive as possible, they could not have pursued measures more calculated to make it so than those which they have actually pursued. Almost the whole of the pressure has arisen from the increased value which their operations have given to the standard itself. They are indeed a very ignorant set."[66]

It is obvious that the resumption of cash payments and the extensive purchase of bullion by the Bank must have affected the value of gold and consequently that of the currency. It is less easy to determine in what degree the value of gold was raised and how far the ill-effects of excessive deflation could have been avoided if the Ingot Plan had been successful. In spite of all that was said to the contrary before the Bullion Committee of 1810 and has been said since, there is no doubt that gold lost value during the war. The average of Professor Silberling's General Commodity Indices for the eight-year period 1807-14 is 174; the average Index Number for gold is 120;[67] indicating that commodities in general were at a premium of 45% in relation to gold. Correspondingly, the average of the Indices of Commodity Prices in the U.S.A. for the first half of this period (during which they were still at peace and had an effective metallic standard) is 142.[68] That gold should thus have lost nearly one-third of its value, used to be considered very remarkable. It was realised that the widespread displacement of gold by paper currency would tend to cheapen the metal; but it was urged that other factors, such as hoarding, the sluggish circulation of money in consequence of war, and the immobilisation of gold-stocks in military chests, would have a contrary effect, and that there was no reason why the balance should lie one way rather than the other.[69] Recent history has thrown more light on the matter. In

[66] Letters to Malthus, No. 76.
[67] *Cf.* Appendix D.
[68] Silberling, "British Prices," p. 250.
[69] *Cf.* Jevons' "Investigations in Currency and Finance," pp. 127-28.

the years 1914 to 1920, gold lost, accountably enough, nearly two-thirds of its value; so that the more moderate depreciation at the earlier period, when similar forces were operative, need no longer occasion surprise.

In the ten years or so following the end of the war, gold regained nearly the whole of the ground it had lost. How far was this due to a diminished supply of (or increased demand for) gold; how far to the increased supply of other commodities? It is natural to point to the progress of invention and the acceleration of trade as affording a ready explanation of the drop in prices after 1815. But, as Jevons remarked, from 1790 onwards, during, as well as after, the war, modes of production were undergoing continuous improvement and there is nothing in such constant progress that can account for a great rise of prices followed by a great fall. If the progress of invention caused the fall of prices, it becomes much more difficult to account for the rise in the early years of the century, when invention was most active.[70] Tooke admitted that production on the whole increased very considerably during the war, but thought that the succession of bad seasons and the obstruction of supplies from abroad, furnished an explanation of the temporary rise of prices.[71] Bad seasons, no doubt, affected the supply of agricultural produce and led to the high range of prices for provisions; but something more than bad weather would seem to be necessary to account for the general increase that took place in the price of nearly all commodities.[72] Professor Silberling also suggests that Tooke much exaggerated the effect of the increased costs of transportation in creating the high war-time price level.[73] Goods subject to heavy freight-charges were not on the whole sensibly dearer than goods of home production or goods which bore relatively light freightage costs in pro-

70 "Investigations in Currency and Finance," pp. 123-24.
71 "High and Low Prices," I., pp. 48-49.
72 *Cf.* "Investigations in Currency and Finance," p. 123.
73 "British Prices," p. 229.

portion to their values.[74] Lastly, on the average of the four years 1816-19 (a period that included two years of good and two of dull trade), the premium on commodities in relation to gold remained still at 37%,[75] as compared with an average of 45% for the eight-year war period 1807-14. It was only in 1820 and the succeeding years that the value of gold really increased, and these were the years during which those countries which had made issues of paper during the war, were taking steps to return to a metallic currency.

The value of the average annual production of gold and silver in each decennial period from 1791 to 1860 has been estimated as follows:—[76]

| Period. | Gold. | Silver. | (in million £) Total. |
|---|---|---|---|
| 1791-1800 | 2·5 | 7·6 | 10·1 |
| 1801-1810 | 2·5 | 7·7 | 10·2 |
| 1811-1820 | 1·6 | 5·1 | 6·7 |
| 1821-1830 | 2·0 | 4·0 | 6·0 |
| 1831-1840 | 2·8 | 5·2 | 8·0 |
| 1841-1850 | 7·5 | 6·8 | 14·3 |
| 1851-1860 | 27·8 | 7·7 | 35·5 |

It will be seen, therefore, that the post-war demand for large supplies of bullion occurred at a time when there was a distinct falling-off in the supply. In addition, the absorption of the precious metals by India in the first few years after the war, was greater than usual: the net imports during the period 1815-20 averaged over £4 millions per annum.[77]

In 1820, the Bank began accumulating gold, and, in the two years 1820 and 1821, not only increased its holding by

[74] *Vide* "British Prices," p. 232.

[75] *Cf.* Appendix D.

[76] Webb "Dictionary of Statistics," *sub nom.* "Gold" (the figures are Soetbeer's).

[77] *Vide* the Table on p. 133 of Jevons' "Investigations in Currency and Finance," which is based on the figures given in R. M. Martin's "Statistics of the Colonies of the British Empire" (p. 360 B). Tooke gives another Table in App. 2 to his "High and Low Prices" (I., p. 211), which does not exactly tally with Jevons'—the divergence possibly arises in the conversion of rupees into sterling. Jevons' exchange of S.R.8 to the £ would appear to correspond with the value of the silver content (176 grains fine) of the sicca rupee at that time.

more than £6 millions,[78] but also issued £9 millions' worth of gold coin.[79] Looking next to the Index Numbers of Prices (measured now in a gold standard currency), we find that there is a steady fall :—

| Year. | 1816-19. (average) | 1820. | 1821. | 1822. | 1823-32. (average) |
|---|---|---|---|---|---|
| Silberling's Index | 137 | 124 | 117 | 114 | 103 |
| Jevons' Index | 135 | 122 | 108 | 101 | 100 |

It is impossible to dissociate this heavy fall of prices from the Bank's extensive purchases of gold. Part of the dramatic rise in the value of the metal was no doubt due to the attempts of other countries to accumulate stocks of bullion ;[80] but the effect of the Bank's competition for the diminished supplies must have been considerable. Ricardo held that the ill-considered purchases of the Directors had raised the value of gold by 5% :[81] the effect of their action cannot have been less than this—it was probably very much greater.[82]

The rise in the value of gold and the relentless fall of prices inevitably increased the distresses of the country, and added to the number of those who were in favour of lowering the standard of value. In the debate on the Resolutions of 1819, Lord Folkestone, at the head of a small band of devaluationists, had urged the advisability of raising the mint-price of gold to 80/6 (the current market price), in order to avoid the undesirable consequences necessarily attendant on a return to the old standard.[83] But his arguments received little attention. Two years later, when the effects of Resumption were being felt, the question came right to the front; and in 1821, over the Cash Payments Bill, and in 1822, over Squire Western's motion, there were heated debates between the devaluationists and the orthodox school.

78 Bank Charter Committee's Report (App. 5), pp. 510-11.
79 *Ibid.* (App. 76), p. 560.
80 *Cf.* Hawtrey, "Currency and Credit," p. 274.
81 "Protection to Agriculture," p. 471.
82 *Cf.* Quarterly Review, vol. XXXIX., pp. 465-66.
83 Parl. Debs. XL. 766.

Our population, said Matthias Attwood, had never been more numerous, nor more distinguished by skill and industry, nor more unrivalled in all those great qualities on which the wealth of nations and their greatness mainly depended; our capital had never been more abundant, nor more adequate to the successful employment of our population; our land had never been so richly cultivated, nor its cultivation so widely extended; no war was apprehended, no ports were closed to our merchants, there had been no scarcity: yet, it was in the midst of all these concurring circumstances, indications of a great and general prosperity, that the country laboured under difficulties which were altogether without example in any former time.[84] The only sufficient explanation of all the "difficulty, ruin and distress" was the appreciation of money. The mistake was this—that the country had been given the wrong standard; it had been given the standard of one period with the engagements of another.[85] Attwood, therefore, proposed that the Government should give back to the country that standard of value and that amount of circulation in which its debts and taxes and engagements had been founded, and in which alone they could be discharged.[86] "We should lose a metallic standard of £4 and gain a metallic standard of £5—we should lose an obsolete and antiquated standard, not connected with the present state of the country nor with its great interests, and should gain that precise standard, which properly belongs to the present state of the country and is the standard of the generation that now exists within it.[87] . . . If we determine on persevering in our present system, we have no other alternative than to remain passive spectators of the great and severe, though silent and at present patient struggle, which is going on throughout the country between its productive population and the

[84] Parl. Debs. (N.S.) VII. 967.
[85] Parl. Debs. (N.S.) V. 107, 112.
[86] *Ibid.* 124-25.
[87] *Ibid.* 126.

burdens by which it is oppressed."[88] Other members of Parliament spoke to the same effect. Even Baring, though unable to follow Attwood to his conclusion, supported the general argument, and described the situation as "one without parallel in any other nation or time—no country before presented the continuance of so extraordinary a principle as that of living under a progressive increase in the value of money and a depression in the productions of the people."[89]

Curiously enough, it fell to Ricardo, usually the Government's most bitter critic, to take the lead in defending the official monetary policy against this new attack. Not that he was at all bigoted in the matter; unlike Huskisson, he realised that when a currency had been depreciated long enough for society to have adjusted itself to the new values, it was at once more expedient and more equitable to devaluate than to deflate.[90] "I never should advise a Government to restore a currency which was depreciated 30 per cent. to par; I should recommend . . . that the currency should be fixed at the depreciated value by lowering the standard and that no further deviations should take place. It was without any legislation that the currency from 1813 to 1819 became increased in value and within 5 per cent. of the value of gold—it was in this state of things and not with the currency depreciated 30 per cent. that I advised a recurrence to the old standard. The advice may have been bad and the measure unwise, but, in judging of it, injustice would have been done to me and those who agreed with me by referring to a state of things which had ceased to exist for more than four years."[91] In Parliament, Ricardo said that, at the time when the Resumption discussions took place, "he certainly would have been rather inclined to alter the standard than to have recurred to the old standard," but

[88] Parl. Debs. V. 129.
[89] Parl. Debs. IV. 1318.
[90] *Cf.* J. M. Keynes, "Monetary Reform," pp. 142-52; Irving Fisher, "Devaluation *versus* Deflation" (Manchester Guardian Commercial, Reconstruction Suppl. 11, pp. 663-64).
[91] Ricardo to Wheatley (Letters to Trower, No. 49).

the price of gold had fallen while the Committee was sitting and the margin was so small that it had seemed worth while to ignore it.[92]

If a recurrence to the old standard was on the whole advisable in 1819, the retention of the recovered standard in 1822 was essential. Any alteration *then* would have destroyed future confidence in the most considered decisions of the legislature,[93] would have permanently impaired the credit of the currency, and, by creating general uncertainty, would have vitiated any benefits that might have arisen from the adoption of a lower standard.[94] The most that could have been done was the re-adoption of the Ricardian system of bullion payments, which, if effectively carried out, would have released gold for the market and tended to reverse the movement of prices. The proposal was actually made by Baring,[95] but it received scant consideration.

[92] Parl. Debs. (N.S.) I. 191; *cf.* Letters to Trower, No. 36, and McCulloch, "Historical Sketch of the Bank of England," pp. 25-26, 28-29.
[93] *Cf.* Parl. Debs. (N.S.) V. 133 (Vansittart).
[94] *Cf. ibid.* 138 (Ricardo).
[95] Parl. Debs. IV. 1325.

# VIII

## CONCLUSION

THIS account would be incomplete without some attempt to bring the results of our investigations into relation to the general state of the country during the period. "The first seven years succeeding the restoration of peace," wrote Buxton, "were among the darkest in modern English history. The excitement and glory of war had evaporated. Peace but accentuated its hardships and confirmed its burdens. . . . With peace did not come plenty."[1] This statement contains no exaggeration: all the evidence emphasises the extent of the distress and the depth of the depression that existed in these years. The Annual Register for 1815 reports that there had rarely been a time of more widely diffused complaint than the close of that year, and all the triumphant sensations of national glory seemed almost obliterated by general depression.[2] In 1816, the situation was no better: the first year after the restoration of peace was characterised in this country as one of "more widely-extended distress than its annals could for a long period exhibit"[3]—the attention of Parliament was forcibly drawn to "the urgent and apparently unforeseen symptoms of suffering which broke out over the whole face of the country and in almost all classes of the community."[4] In 1817, distress was scarcely

[1] "Finance and Politics," I., p. 9.
[2] Preface, p. vi.
[3] Annual Register 1816, General History p. 91.
[4] *Ibid.*, Preface p. iv.

diminished;[5] and though in 1818, owing to renewed inflation, trade temporarily recovered and employment revived, things were worse than ever in 1819. "Pecuniary distress has been nearly universal: the agricultural, the commercial, and the manufacturing interests have all laboured under depression and embarrassments seldom equalled, and none of them yet appear to have attained the crisis of their difficulties."[6] In a letter to Lord Liverpool, the Duke of Hamilton emphasised the desperate condition of the Glasgow district: "unless some relief in the form of work or sustenance was afforded, it was more than probable that, before the close of the winter, the people would be tearing one another to pieces for want of food. The gentlemen of the country had not the means of supplying relief for the present unemployed poor; and their inclination would diminish with the diminution of their means; and that must be the case as long as the manufacturer continued day after day to increase the evil by curtailing his workmen and diminishing the extent of his work."[7] In 1820, 1821, and 1822, manufacturers and merchants gradually accommodated themselves to the new conditions, and aided by the fall in the price of provisions, were able in some cases to employ more men and pay them higher real wages.[8] But the shipping industry remained in a ruinous state;[9] the iron-workers were, for the most part, idle;[10] and the distress of the agriculturalists was as intense as ever.[11]

Unemployment and starvation led to riot and lawlessness. In the Eastern Counties, nightly assemblages were held, threatening letters sent, and houses, barns, and rick-yards set on fire; in 1816, the Sheriff of Suffolk felt com-

[5] *Cf.* Petition of the Distressed Mechanics of Birmingham (Parl. Debs. XXXVI. 23-25); this significant document is given in full in Appendix F.

[6] Annual Register, Preface p. iii.

[7] Yonge, "Life of Liverpool," II., p. 438.

[8] Annual Register 1820, General History pp. 3-5; Annual Register 1821, General History p. 66; Parl. Debs. (N.S.) VII. 1014-15 (Peel).

[9] *Cf.* Parl. Debs. (N.S.) V. 105.

[10] Annual Register 1821, General History p. 69.

[11] For an account of the desperate plight of agriculture in these years, *vide* Ernle, "English Farming Past and Present," chap. XV.

pelled, owing to the alarming state of the country, to drive up to town to the Secretary of State's office, and to make a personal request for the assistance of the government in order to restore tranquility. There were riots in Bridport, disorders in Ebbw Vale, tumults in Durham. London was the scene of the insurrectionary meeting at Spa-Fields, in 1816; of an attempt on the life of the Prince Regent, as he returned from opening Parliament, in 1819; and of Thistlewood's conspiracy to massacre the Cabinet, in 1820. The Government, unable rather than unwilling to bring relief, became extremely unpopular, and political agitators found ready audiences—" field meetings of hundreds and thousands were repeatedly assembled to listen to harangues on the abuses of government and on the necessity of radical reform of the House of Commons as a first step towards the alleviation of the distresses of the country."[12] " I am certain," wrote Southey to Lord Liverpool, " that the great body of the manufacturing populace are not merely discontented with the Government but absolutely abhor it with a deadly hatred, and that in the metropolis this temper is so prevalent that if the fear of the military were withdrawn, four and twenty hours would not elapse before the tricoloured flag would be placed upon Carlton House."[13] The poet's imagination possibly exaggerated the fact; but Liverpool himself, writing to Lord Grenville, in 1819, on the subject of revolutionary movements in the country, said " I am sanguine enough to believe that the great body of the population is still sound, but it is impossible to say how long it will remain so. I am inclined to hope that preventive measures may even now prove effectual in England without the necessity of coming to extremities, but I am very apprehensive from all accounts I have recently seen, that in the western parts of Scotland, the evil is in a more advanced state and will not be stopped without bloodshed."[14] The Glasgow Riot and Battle of Bonnymuir actually occurred

[12] Annual Register 1819, Preface p. iii.
[13] " Life of Liverpool," II., p. 298.
[14] *Ibid.* p. 431.

in the following year,[15] so that Liverpool's fear was not unwarranted.

The governing classes, bewildered by the economic troubles left by the war, and determined, in the reaction from French Jacobinism, to preserve intact a political system that had no longer any practical justification, met these outbreaks with stern measures of repression. In 1817, the Habeas Corpus Act was suspended, the "Gagging Act" passed, and Secret Committees of both Houses appointed to inquire into the revolutionary outbreaks; in 1819, the "Six Acts" became law. Extensive use was made of the military forces, as well to break up political meetings, as to quell disturbances; and at Peterloo, troopers rode down unarmed civilians. The brutal penal code was enforced without mitigation, and if the hangman had an idle day, it was from the refusal of juries to convict, not of judges to condemn.

What was the cause of all this trouble and distress? This question was earnestly debated but never satisfactorily answered. The official explanation of the depressed state of the country was "the transition from war to peace"—an explanation that is sound enough in a way. The sudden failure of the war demand for a large range of articles could not be immediately counterbalanced by the recovery of the peace-market; and thousands of men were inevitably thrown out of employment. "The distresses arising from the stagnation of manufactures were nowhere more severely felt than in those districts which had been rendered populous and flourishing by the numerous branches of the iron trade, several of which derived a large share of their demand from the consumption of war. Many great works of this class were suddenly put to a stop with the effect of throwing entirely out of employment the labourers of different kinds who had been engaged in them. . . . The most lamentable accounts were transmitted of the populous village of Bilston being totally dependent on parochial relief, the

[15] *Vide* Walpole, "History of England," I., pp. 440-42.

funds of which were inadequate to preserve them from absolute famine."[16] The number of men, working in war-industries, and therefore liable to lose their jobs, was estimated by Lowe at 100,000.[17]

But the " transition " explanation is inadequate—for two reasons. In the first place, almost all industries were affected. Birmingham might lose £15,000 a week in wages owing to the cessation of Government expenditure on munitions; but the situation of Birmingham was not appreciably worse than that of other manufacturing centres. Coventry, Manchester, Spitalfields and Sheffield, producers of articles of general consumption, found that the demand for their productions had fallen off just as much as if they had been producers of war materials.[18] In the second place, the distress was so extended in time that " the transition from war to peace " becomes almost farcical as an explanation. " The gleam of good trade in 1818," writes Mr. Hawtrey, " and the speculative blaze of 1825 were an inadequate set-off to the general gloom."[19] Dr. Shadwell considers that " recovery took a very long time. There were occasional spurts of trade, but they soon died away. The ' general prosperity ' in 1824 . . . did not last. Looking back on it, all one can see is that the country slowly drew itself out of the economic slough, with slippings back at irregular intervals."[20] Victorian plenty is generally dated from 1851—the year of the Great Exhibition and the Australian gold discoveries, four years after the gold finds in California, five years after the repeal of the Corn Laws and nine years after Peel's 1842 Budget.

The rejection of the " transition " explanation as inadequate, so far from clearing up the situation, only increased the general bewilderment. The prevalent state of mind is well illustrated in the following passage written in 1820: " That the distresses of the country continue rather

[16] Annual Register 1816, General History p. 94.
[17] " Present State of England," p. 62.
[18] *Cf.* Attwood, " Creation of Money," pp. 88-90.
[19] " Currency and Credit," p. 361.
[20] " After Waterloo," p. 112.

to increase than to diminish is a fact which seems to be admitted on all sides, and it is equally evident that there is no public confidence either that the cause of these distresses has been satisfactorily ascertained, or that any of the various remedies proposed will remove the evils of which there is so much to complain. . . . Year after year passes away and our difficulties augment as we go on. . . . For the two or three first years after the peace, the sudden transition from war and the revulsion, as it was called, of commerce, were said to be the cause of all our calamities; that we were suffering a temporary evil which would very soon cure itself. . . . This opinion does not now prevail. Experience has taught us that it is not true, and people seem to be at a loss to what to attribute the distresses of the country . . . the disciples of Mr. Malthus hint at *redundant population*:—Mr. Tierney says it is *paper currency*:—Mr. Brougham, *excessive taxation*:—Mr. Baring, *restrictive trade*:—Sir Francis Burdett, *want of Radical Reform*:—while others attribute all the calamities of the country to the *Poor Rates*."[21] The Corn Laws and Tariffs Abroad were also put forward as causes of the distress.

Some of these suggested explanations can be at once ruled out. Radical Reform, for instance, was a purely political nostrum; and it could only effect economic ills by putting into power men better qualified to cope with them. The demand for Radical Reform signified rather a want of confidence in the ability of the Government to find a way out of the economic troubles, than the possession of an actual remedy. Much again was said as to the redundancy of the population. In 1819, we hear of efforts made to disburthen the country of a population "felt to be redundant" by affording encouragement to emigration; and £50,000 was voted towards the establishment of settlers in the Cape of Good Hope and in New South Wales.[22] But since the population of England in 1816

[21] "Letter to the Earl of Liverpool," pp. 3-5.
[22] Annual Register 1819, Preface p. iv.

was only 11 millions, since enough corn was grown, in years of normal yield, to feed the whole population, and the country was passing through a period of great industrial development, it would be difficult to prove the actual existence of over-population.

The growth of foreign tariffs after the war attracted great attention. In 1817, Lord Wellesley advanced the view that the recent prosperity should be regarded as temporary and due to the peculiar commercial conditions created by the war:[23] with peace restored, the continental countries inevitably wished to set about supplying their own needs, and "in their hostility to our manufacturers, every possible impediment was laid by municipal regulation to the produce and manufactures of Great Britain. So open and avowed was this hostility that even in the market-places, an *auto-da-fé* was made of British goods; and the Governments themselves, who owed their existence to our friendship, were forced to discountenance our manufactures for the support of their own."[24] Brougham made neglect of the country's commercial interests, a ground for attack on the Government's peace settlement. "After a war of unexampled suffering and exertion has been crowned with success far beyond the most sanguine expectation, we naturally ask how it comes to pass that the glorious peace which our efforts have purchased comes without restoring our foreign trade; that we are still shut out from most parts of the continent, as if war were still waged against our commerce; and that, day after day, fresh obstacles spring up to it in quarters where it ought to meet the kindest encouragement? It is not in France merely, where we have long been accustomed to expect a return of jealousy, that our intercourse enjoys no facilities. In what corner of Europe does it possess them? . . . In Russia, our commerce labours under duties so nearly amounting to prohibition, as to throw it into the hands of contraband traders; Prussia almost directly excludes us

[23] *Cf.* Smart, "Economic Annals," I., pp. 490-91.
[24] Parl. Debs. XXXV. 69.

from all intercourse with her dominions; our trade with Spain is in a worse state than with almost any other foreign state; and in Austria, we meet with nothing but prohibition. The continental system, which Buonaparte projected without the power to complete, has now been carried into effect by the Bourbons and our other allies—with this important addition, that their measures have the full consent of the people, which Buonaparte's never obtained." No arrangements had been made with foreign powers for the promotion of our commercial interests—these things, it seemed, were below the notice of so military and politic an administration as we then possessed.[25] The same complaint was re-echoed by Cobden in 1835: at the close of the war, he wrote, our ministers might have stipulated for and might have commanded a trade with all Europe, as some indemnity for our expenditure; but the warriors and statesmen who took pains to forward such measures as the military occupation of France, or the erection of fortresses in Belgium, or the binding us to become guarantee for the permanency of the union of the Netherlands, forgot to utter one word about our merchants. It was unbecoming the dignity of our gallant and noble plenipotentiaries to stipulate for the welfare of the artisans and manufacturers of Great Britain.[26]

The growth of tariffs abroad after the war is undeniable. In 1816, the U.S. put a 25% prohibitive duty on cotton and woollen goods; a 20% protective duty on articles of which a sufficient supply could not be manufactured in the country; and a revenue-tariff on a long list of articles mostly of foreign origin.[27] On the continent, Prussia set up a protective tariff in 1817, with special discrimination against English goods; France and Austria followed suit soon after; and Sweden adopted a prohibitive tariff later on.[28] These tariffs, however, seem to have been remark-

[25] Parl. Debs. XXXV. 1036-39, 117.
[26] "Political Writings" (2nd ed.), I., pp. 137-38.
[27] "Economic Annals," I., p. 495.
[28] *Ibid.* p. 565.

ably ineffective in practice.[29] Lowe remarked in 1822 that our foreign commerce had been greater since the peace than at any time during the war;[30] and this statement is fully borne out by the statistics of foreign trade. The average 'official' value of Exports and Imports in each period of four years from 1803 to 1823, omitting 1815, the year of transition, was as follows:—

(in million £)

| Period. | Exports. | Imports. | Exports of Home Produce (Real Value). |
|---|---|---|---|
| 1803-6 | 31·2 | 27·5 | — |
| 1807-10 | 37·9 | 31·5 | (41·5) |
| 1811-14 | 40·6 | 28·8 | (40·0) |
| 1816-19 | 49·0 | 31·4 | (41·3) |
| 1820-23 | 51·6 | 32·4 | (36·4) |

These figures show that the *volume* of foreign trade increased most satisfactorily after the war (the question of monetary policy is involved in the consideration of its *value*). If trade was bad, it was owing to the failure of the home, not of the foreign, market.[31]

The counterpart of the foreign tariffs was the system of prohibitions and high protective duties that prevailed at home. These, by checking the increase of imports of commodities that could not longer be produced economically in sufficient quantity in this country, undoubtedly interfered with the natural development of the foreign market for our growing stream of manufactures. As we have already seen,[32] this fact was beginning to be appreciated. In 1817, opinion was turning in favour of a more liberal fiscal policy, and a Chancellor of the Exchequer of the calibre of Peel, or even of Huskisson, would have seized the opportunity to initiate a reform of the tariff. But though such a step might well have supplied just the impetus required to pull the country out of the slough of commercial depression and the vicious circle of under-consumption and under-production; the existence of the

[29] Possibly owing to the habit acquired by Continental Governments of floating loans in London; *cf.* Hobson, "Export of Capital," pp. 99-100.

[30] "Present State of England," p. 24.

[31] *Cf.* "Present State of England," p. 70; cf. also, Report from Select Committee on the Hand-loom Weavers, pp. 15-16.

[32] *Supra* p. 36.

post-war depression can scarcely be ascribed to the pusillanimity of Vansittart in this matter. During the war, commerce flourished in spite of every obstacle; and, after 1815, even if its full potentialities were not realised, foreign trade expanded well enough.

It does not fall within the scope of this paper to examine in any detail the system of Corn Laws or Poor Laws, and we can only notice briefly their more obvious effects on the economic fortunes of the country. The Corn Law of 1815, as part and parcel of the protective and prohibitory system, had its share in preventing the development of the foreign market; but it was also so ill-conceived that it actually increased the distresses of those it was designed to help. Currency inflation, the enforced restriction of imports of grain, a series of seasons more than usually unfavourable,[34] and increased demand, had combined to force up the price of corn from a pre-war average of 47/- to an average of 95/9 for the period 1807-14.[35] Agriculture had consequently been extended and rents had risen: farms which let in 1792 at £170 per annum, fetched £240 in 1803, and as much as £320 in 1813.[36] The Corn Law of 1815, passed in the teeth of the opposition of the country—an opposition that expressed itself constitutionally in an unexampled flood of petitions to Parliament against the Bill,[37] and, in less law-abiding fashion, in attacks on the private houses of cabinet ministers[38]—was designed to prevent the price of corn falling to the European level, to keep rents up,[39] and to maintain the extended tillage that war

[34] *Cf.* Tooke, "High and Low Prices," III., p. 74.

[35] Calculated from the table given on p. 254 of "Customs Tariffs of the U.K."

[36] "Present State of England," p. 48.

[37] *Cf.* Parl. Debs. XXX., 127.

[38] Annual Register 1815, Chronicle pp. 19-25.

[39] The measure was widely regarded as a landlords' bill (*cf.* "Warning Voice to the Legislators and Landowners of the Country," pp. 5, 9, 15) but it was quite ineffective in preventing a fall of rents. According to the replies received in answer to a circular letter sent out by the Board of Agriculture in February, 1816, the average reduction of rents that had taken place amounted to 25% (*cf.* "Present State of England," p. 48). This, it was calculated, represented a loss of over £9 millions a year to landlords—a loss, for which the repeal of the Income Tax scarcely provided adequate compensation (*vide* Annual Register 1816, State Papers pp. 460-61)!

conditions had called forth. The measure failed dismally. By prohibiting the import of foreign grain till the home price reached 80/-, it was intended to protect the home-grower in seasons of sufficient or abundant crops; by allowing free import above 80/-, to give every facility to importation in times of scarcity. In actual operation, said the Agricultural Committee of 1821, the Corn Law aggravated the evils of scarcity and rendered more severe the depression of prices from abundance. Its enforcement prompted the grower to extend home cultivation in hope of a monopoly price; while its occasional interruption often deprived him of it when most wanted. It held out the prospect of a trade occasionally free, but so irregular as to baffle calculation and to involve the dealer in more than the ordinary risks of mercantile speculation. At one time, it exposed the market to be overwhelmed with an inundation of foreign corn: at another, in the event of any considerable deficiency in our own harvest, it created a sudden competition on the continent, by the effect of which prices were raised against us.[40]

But the Corn Law was not the only factor that upset the calculations of the farmer. Apart from the extreme fluctuation in prices, he had, in common with other producers, to contend with a steady fall of prices, due to the monetary policy pursued by the Bank of England and the Government after the war. During the period 1807-14, corn was selling at double the pre-war price; a few years later, two-thirds of the increase had gone. Since agriculture, most of all industries, needs stable conditions, it found great difficulty in accommodating itself to the changed circumstances,[41] and deflation played at least as great a part as the Corn Law of 1815, in producing post-war agricultural distress.[42]

The system of Poor Relief weakened the incentive of the employee to do good work, or even to work at all, just as

[40] Report *cit.*, p. 12.
[41] *Cf.* R. R. Enfield, "The Agricultural Crisis, 1920-1923," pp. 98-104, 124-25.
[42] *Cf.* Agricultural Committee of 1833, Report pp. 10-11.

deflation discouraged the entrepreneur from performing his part in the process of production. Under the Speenhamland system, which was adopted in 1795, not only was outdoor relief to the workless granted with great laxity, but the practice was initiated of supplementing wages out of Poor Law funds. Relief was granted on a joint calculation of the price of bread and the number of children in the family of the applicant: if the wage paid by the employer was, owing to the rise in the cost of living, inadequate for subsistence, it was supplemented by the parish according to a "bread-scale."[43] This system, justly condemned by the Poor Law Commissioners in 1834, rapidly demoralised the worker (Lowe estimated that in England and Wales nearly one million *adults* out of a *total* population, in 1822, of twelve millions, were wholly or partially dependent on the rates[44]); it encouraged the employer to rely on parish funds to pay part of his wages-bill; and it placed a steadily growing burden on the back of the unfortunate rate-payer. Nevertheless, the system had been in force for twenty years in 1815 without noticeably affecting the economic progress of the country; and there is no reason for assuming that the (not very considerable) increase in rates after that date, was due to the vicious habits of the population and not to an increase of *bona-fide* unemployment.[45] If deflation *had* to be undertaken, the Poor Law system, which alone stood between the workless and starvation, was bound to feel the strain. At a time when the conditions of employment were about as bad as they could be, and the feelings of the unemployed found frequent expression in riot and lawlessness,[46] there was even an advantage in having a system of relief which, however objectionable in other ways, did at least mitigate the effects, economic and political, of the industrial depression.

[43] *Vide* "Present State of England," pp. 195-96; *cf.* G. Nicholls, "History of the English Poor Law," II., pp. 134, 164.

[44] "Present State of England," p. 202; *cf.* Parl. Debs. (N.S.) XVIII. 1527.

[45] *Cf.* Ernle, "English Farming Past and Present," pp. 327-28.

[46] *Vide* Walpole, "History of England," I., pp. 342-55.

We come, then, finally to consider the effect of the Government's financial and monetary policy on the state of the country. The extravagance of the administration was the subject of continual criticism in Parliament by a small group of men led first by Brougham, and later by Joseph Hume. But, as we have seen, there was no way of materially decreasing the £55 or £60 millions, the normal annual expenditure:—there was no short method of reducing the £30 millions of debt-charges; the increased cost of the fighting services was largely due to an all-round increase in pay that was necessarily and rightly permanent; and such small economies as could have been effected by abolishing sinecures would have been more difficult to carry through than more useful financial measures. If, however, a greatly increased revenue had to be raised each year to meet charges, most of which were fixed in terms of money, it became a matter of some importance to place the burden scientifically, to avoid increasing its weight unnecessarily by raising the value of the currency, and to stimulate in every way possible the productive energies of the nation. What did the government do? After making out a splendid case for the retention of the Income Tax, they meekly gave way in face of Brougham's obstructionist tactics; and while admitting the need of fiscal reform, they confessed themselves incompetent to carry it through. The country was left to flounder helplessly in a net-work of indirect taxes that at once pressed with unsparing severity on the poorer members of the community,[47] curbed the productive energies of the nation, and checked recovery from the post-war slump.

But if the financial policy of the Government was unenterprising and unhelpful, its effects were not as unfortunate as those of the relentless process of deflation that went on for so many years after 1815. It is difficult to avoid the conclusion that the appreciation of money was mainly responsible for the troubles that followed the peace. Some revulsion from the credit conditions that prevailed

[47] *Cf.* Palmer, "Speech on the State of the Nation," pp. 22, 24.

in the last two years of the war was unavoidable; but the process of re-adjustment was needlessly prolonged and made unduly difficult by the ill-considered policy of the Government and the Bank Directors. In 1817, when the worst of the post-war slump had been weathered and conditions were becoming more stable, the Government with eyes blind to everything but their precious Sinking Fund, re-entered on a course of inflationary finance: two years later, a renewed slump set in, which, if less severe than that of 1816, was more depressing. In 1819, the Government put their finances on a sounder basis, and it was the turn of the Bank Directors to go astray. Though a plausible theoretical case for devaluation after the war might perhaps be made out, in practice a return to the pre-war standard was inevitable. But if the measure of deflation necessary to bring paper to parity with gold had to be endured, it was of paramount importance to take every precaution to keep the value of gold from rising, so that paper would not have to pursue a retreating goal. It was with this intent that Ricardo brought forward his Ingot Plan and advised the Bank to sell gold rather than buy. But the Directors, unwilling to recognise their responsibilities and unable to realise their opportunities, chose to keep their own counsel—and to leave industry to struggle with the heavy fall of prices.

It must be admitted that deflation helped the Government's conversion operations. In 1822, £150 millions of Navy 5 per cents. were converted to 4%, and in 1824 £75 millions of 4% stock was converted to 3½%. The saving effected was substantial, but quite deceptive. Owing to the heavy fall of prices, the real burden of the reduced debt-charges was scarcely diminished; while the burden of the charges on the main bulk of the Debt—the 3% stock—was much increased. Deflation also played its part in stimulating the flow of investment abroad; but whether this was an unmixed good, is at least open to question. It is more important to consider the effect of deflation on the condition of the artisan. Owing to the fact that the level

of wages responds comparatively slowly to general price movements, appreciation of the currency is normally associated with a rise in real wages. The period 1815-22 appears to have been no exception to this rule, and the statistics on the subject clearly indicate a considerable increase in the commodity-value of the earnings of manual workers.[48] The Index Numbers of Average Real Wages (*i.e.* money wages corrected by the change in the cost of living), taking the level of wages in 1790 as 100, are as follows:—[49]

| Period. | 1809-14. | 1816-19. | 1821-24. |
|---|---|---|---|
| Agricultural Labourers - | 112 | 127 | 134 |
| Industrial Workers - | 97 | 105 | 137 |

The evidence of these figures is supported by numerous statements by contemporary observers.[50] But this rise of real wages forms only one-half of the picture. A high rate of wages is of little use, if employment is discontinuous; and before we can draw any conclusion as to the general condition of the large class of manual workers, we need to know something of the extent to which unemployment prevailed.

There are, unfortunately, few subjects on which accurate information is more scanty than unemployment in the early 19th century. As poor relief was the only resource open to the workless, the figures of the amount expended each year by the Poor Law authorities afford some indication of the extent of unemployment:—[51]

[48] This increase, however, was by no means universal: textile workers, in particular, found their real, as well as their nominal, wages lowered and were reduced to a state of abject misery (*vide* Report from Select Committee on the Hand-loom Weavers, pp. 12-14).

[49] The table is constructed from Silberling's Indices of the Cost of Living ("British Prices," p. 235), Bowley's Indices of Wages of Agricultural Labour in England and Wales (*ibid.* p. 250), and Wood's Indices of Wages of Industrial Workers (*ibid.* p. 236).

[50] *Vide* Tooke, "High and Low Prices," I., pp. 197-98; "History of Prices," II., pp. 70-71; Parl. Debs. (N.S.) VI. 710 (Liverpool), IV. 1336 (Ellice), VII. 1015 (Peel); *cf.* Porter, "Progress of the Nation," pp. 47-49.

[51] Report from Select Committee on Poor Rate Returns, 1824 (App. A) p. 377.

| Year, ending 25th March, | Amount (in million £). | Average Price of Corn. | Year, ending 25th March, | Amount (in million £). | Average Price of Corn. |
|---|---|---|---|---|---|
| (1803) | (4·1) | (63/2) | 1818 | 7·9 | 90/7 |
| 1813 | 6·7 | 128/8 | 1819 | 7·5 | 82/9 |
| 1814 | 6·3 | 98/- | 1820 | 7·3 | 69/5 |
| 1815 | 5·4 | 70/6 | 1821 | 6·9 | 62/5 |
| 1816 | 5·7 | 61/10 | 1822 | 6·4 | 53/- |
| 1817 | 6·9 | 87/4 | 1823 | 5·8 | 41/11 |

and support the view that the unemployment after the war was severe. But owing to the fact that wages were also subsidised out of the rates, it is impossible to draw any very precise conclusions from these figures.[52] A return made to Parliament in 1818 gave the average number of those in regular receipt of outdoor relief in the period 1813-15 as 423,678, and of those receiving occasional relief as 423,158;[53] in the following years the numbers plainly increased. But a Parliamentary Committee appointed to inquire into the matter in 1822, stated that all the Returns to date had been entirely inaccurate as to the number of persons, permanently or occasionally, relieved.[54] All that can be said is that unemployment and under-employment were very extensive,[55] and that if some workers gained through deflation an increase in real wages, others lost even the scanty weekly sum they had previously been able to earn. Deflation did not certainly confer on the manual worker such outstanding benefits that its disastrous results in other directions can be overlooked.

What, then, are we to say of Vansittart's conduct of financial reconstruction after the war? He had perhaps greater opportunities of distinguishing himself than any Chancellor of the 19th century, and yet he failed to associate his name with one single measure of importance. The Property Tax was repealed despite his opposition: the War Duty on Malt was lightly abandoned. His

[52] *Cf.* Report from Select Committee on Poor Rate Returns, 1821, p. 276.

[53] Returns relative to the Maintenance of the Poor (App. 2), p. 637.

[54] Report from Select Committee on Poor Rate Returns, 1822, p. 529.

[55] *Cf.* Shadwell, "After Waterloo," p. 111.

erroneous views on currency, which were harmless enough when confined to theory, bore fruit in 1817 and did untold harm; in 1819, the restoration of a gold standard was entrusted to other hands. He defended the Sinking Fund to the last, and only gave way in face of the unanimous recommendation of a Parliamentary Committee. Too unenterprising to attempt the reform of the tariff that his successor undertook, he wasted his ingenuity in devising the futile scheme for funding the Half-Pay and Pensions Charge. Vansittart was universally and no doubt justly popular, but his talents scarcely lay in the region of finance. In 1823, Liverpool persuaded him to accept a peerage.

THE END

# APPENDICES

## *APPENDIX A*

### (i) *Population.*

Information as to the number of the inhabitants of the British Isles during, and in the years immediately following, the Napoleonic wars, is scanty and not very reliable. Before 1801, we have only the results of various private calculations: in 1801, the first census was held, but the value of this is impaired by the fact that the machinery and organisation were very defective, and that it did not include Ireland. The first census for the United Kingdom was held in 1821. The table below, based on such figures as there are, gives a rough estimate of the population of the country at various dates:—[1]

| Year. | England and Wales. | Scotland. | Ireland. | Total. |
|---|---|---|---|---|
| 1793 | 8·5 | 1·5 | 4·0 | 14·0 |
| 1816 | 11·0 | 2·0 | 6·0 | 19·0 |
| 1821 | 12·0 | 2·2 | 6·8 | 21·0 |

### (ii) *National Wealth and Income.*

Estimates of the amount of the national wealth and income can at the best of times only be approximate, though, with scientific treatment and under favourable conditions, the margin of error may be reduced to small dimensions. In the early 19th century, materials such as would enable reasonably precise results to be reached, were lacking; and little skill was shown in the handling of such materials as there were. The chief calculations are those of Beeke (made in 1800), of Colquhoun (in 1812), and of Lowe (in 1822): the latter writers, of course, used the results reached by the former ones. None of them are very satisfactory. Lowe's computations are muddled and he does not make clear what he means by "taxable" income. McCulloch went as far as to call

[1] *Vide* Walpole, "History of England," I., pp. 22-24; Porter, "Progress of the Nation," pp. 3-4.

Colquhoun's treatise "from beginning to end a tissue of extravagant hypotheses and exaggeration."[2] But, when all has been said, these estimates represent conscientious attempts to arrive at the real figures and give some indication of the probable amount of the national wealth and income at the various dates. By collating and combining the results, we arrive at the following table:—[3]

| Year. | | (in million £) National Wealth. | | National Income. |
|---|---|---|---|---|
| 1792 | ... | 1,300 | ... | 140 |
| 1814 | ... | 2,700 | ... | 335 |
| 1822 | ... | 2,200 | ... | 255 |

(*Note.*—The fact that the *money* income of the country decreased from £335 millions in 1814 to £255 millions in 1822 affords no ground for supposing that the *real* income of the country also decreased—the contrary was probably the case. The appreciation of the pound during the interval has to be taken into account.)

[2] "Literature of Political Economy," p. 218.

[3] *Vide* "Progress of the Nation," pp. 696-98; Smart, "Economic Annals," II., p. 72; H. Beeke, "Observations on the Produce of the Income Tax"; Colquhoun, "Wealth of the British Empire," chaps. II., III.; "Present State of England," pp. 39-41, 66-67, 246-49, 257-59, App. pp. 82-84.

## APPENDIX B

TABLE[1] SHOWING THE AMOUNTS OF PUBLIC INCOME AND EXPENDITURE, OF THE REAL SURPLUS OF REVENUE, OF THE SINKING FUND, ETC., IN EACH FINANCIAL YEAR 1815-22. (in million £.)

| Year, ending Jan. 5th. | 1816 | 1817 | 1818 | 1819 | 1820 | 1821 | 1822 | 1823 |
|---|---|---|---|---|---|---|---|---|
| Customs and Excise | 43·8 | 38·8 | 36·6 | 40·2 | 39·5 | 41·5 | 42·6 | 42·0 |
| Inc. and Property Tax[2] | 14·6 | 11·8 | 2·3 | ·6 | ·2 | — | — | — |
| Other Revenue[3] | 20·7 | 18·7 | 18·7 | 18·7 | 18·4 | 18·4 | 19·0 | 17·9 |
| Total Receipts | 79·1 | 69·3 | 57·6 | 59·5 | 58·1 | 59·9 | 61·6 | 59·9 |
| Debt Charges | 32·2 | 32·9 | 31·4 | 31·3 | 31·0 | 32·0 | 31·9 | 31·4 |
| Civil Government | 10·8 | 10·3 | 9·6 | 10·6 | 9·8 | 9·7 | 9·9 | 9·9 |
| Fighting Services | 56·5 | 28·2 | 17·7 | 15·7 | 16·7 | 16·7 | 16·6 | 15·2 |
| Total Expenditure | 99·5 | 71·4 | 58·7 | 57·6 | 57·5 | 58·4 | 58·4 | 56·5 |
| Surplus | −20·4 | −2·1 | −1·1 | 1·9 | ·6 | 1·5 | 3·2 | 3·4 |
| Sinking Fund | 14·5 | 14·3 | 14·3 | 15·0 | 16·0 | 17·1 | 16·8 | 15·4 |
| Surplus | −20·4 | −2·1 | −1·1 | 1·9 | ·6 | 1·5 | 3·2 | 3·4 |
| Apparent Deficit | 34·9 | 16·4 | 15·4 | 13·1 | 15·4 | 15·6 | 13·6 | 12·0 |
| Estimated Deficits (Budget speeches) | 51·1 | 17·2 | 12·6 | 13·7 | 13·4 | 14·7 | 13·5 | 16·2 |

[1] The figures (except for the "Estimated Deficits") are taken from P.I. and E., pp. 520-35.
[2] This was repealed in 1816.
[3] This includes the receipts of the Post Office, which brought in over £2 millions a year—the cost of the department was rather more than £1½ million.

*NOTE on the Public Accounts.*

The contemporary accounts for this as well as earlier periods are extraordinarily complicated. They are not made up on any fixed principle; and accounts dealing with the same subject differ from one another quite inconsequently. Hume remarked in 1821 that "the public accounts were in such a state as to render it impossible for any man whatever industry he might possess to come to an undisputed conclusion upon them. If one person made up an account from them, another might easily draw up a different one upon the same authority and challenge the preference for correctness. . . . On so simple a matter as the deficiency of the Consolidated Fund there were three public accounts, all signed by the same person, all relating to the same period, and all differing in amounts. As to the reduction of the debt, there was a difference of some millions between the budget and the annual accounts."[4] Another member of Parliament suggested in the following year that "it was absurd that the public accounts could not be made out in some more satisfactory way than they were at present, so as to show at once how the accounts stood, without needing the speech of a secretary for a whole hour to explain how these differences were to be accounted for."[5] A Committee was appointed early in 1822 to suggest means of simplification. In their Report they stated that "the principal and most prominent defect in the present form of the Accounts is that they neither do, nor can, exhibit any balance between Income and Expenditure of the year . . . the Account of Income and the Account of Expenditure are accounts of different kinds; the one being an Exchequer Account, the other not, and no true balance can be struck by comparing them together."[6] Smart has also pointed out that "it is impossible to check the Budget estimates by the amounts actually realised, as the estimates were made up from April to April, while the accounts were made up from December to December—to say nothing of the fact that the estimates are lumped in solid and simple categories, while the accounts are sub-divided and, so far as I can make out, the same imposts are sometimes put under different names."[7]

Under these circumstances, no attempt has been made to grapple with the intricacies of the annual accounts to be found at the end of volumes of Hansard, or with those that appear in various Parliamentary Papers of the time: when figures of revenue, expenditure, etc., have been needed, it has seemed

[4] Parl. Debs. (N.S.), V. 1349-50.
[5] Parl. Debs. (N.S.) VI. 109.
[6] *Loc. cit.* pp. 295-96.
[7] "Economic Annals," I., p. 280.

simpler and more satisfactory to take them from Parliamentary Paper No. 366 of 1868-69, which contains not only balanced accounts for all the years from 1688 to 1869 prepared on a uniform basis (except that the accounts previous to 1800 are net, those subsequent to 1800 gross), but also a mass of explanatory information on almost every branch of the public finances.

| Year | FUNDED DEBT REDEEMED:— By Sinking Fund Stock | By Sinking Fund (Cash) | By other means | Total | FUNDED DEBT CREATED:— Description of Loan | Stock Created | (Cash) | Total in Year | Funded Debt Outstanding | Unfunded Debt Outstanding | Total Debt Outstanding |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1816 | 21·9 | (13·7) | 1·2 | 23·1 | 3% Loan from Bank (at par). | 3·0 | (3·0) | 3·0 | 816·3 | 44·8 | 861·1 |
| | | | | | | | | | (−20·1) | (+5·0) | (−15·1) |
| 1817 | 18·4 | (14·2) | 1·0 | 19·4 | — — | — | — | — | 796·2 | 49·8 | 846·0 |
| | | | | | | | | | (−19·4) | (+12·8) | (−6·6) |
| 1818 | 18·9 | (15·0) | ·9 | 19·8 | 3% Funding Loan (£128 per £100 cash). | 34·9 | (17·7 bills) ( 9·7 cash) | 34·9 | 776·8 | 62·6 | 839·4 |
| | | | | | | | | | (+15·1) | (−13·9) | (+1·2) |
| | | | | | Conversion Loan (£11 cash per cent. on £27·3 millions 3% Stock converted to 3½% at 88). | — | (3·0) | | | | |
| 1819 | 13·5 | (10·0) | ·6 | 14·1 | 3% Loan (£142 18s. 8d. per £100 cash). | 17·2 | (11·9) | 17·2 | 791·9 | 48·7 | 840·6 |
| | | | | | | | | | (+3·1) | (−7·2) | (−4·1) |
| 1820 | 6·7 | (4·7) | ·7 | 7·4 | 5% Funding Loan (£99 per £100 cash). | 6·9 | (7·0) | 14·0 | 795·0 | 41·5 | 836·5 |
| | | | | | 3% Loan (£142 4s. 0d. per £100 cash). | 7·1 | (5·0) | | (+6·6) | (−8·2) | −(1·6) |
| 1821 | 6·1 | (4·7) | ·6 | 6·7 | 4% Loan from Bank of Ireland (at par). | ·4 | ( ·4) | ·4 | 801·6 | 33·3 | 834·9 |
| | | | | | | | | | (−6·3) | (− ·6) | (−6·9) |
| 1822 | 4·8 | (3·9) | 3·9 | 8·7 | Navy Conversion (£105 of 4% Stock for £100 of 5%—increase, 5% on £149·6 m.). | 7·5 | — | 9·9 | 795·3 | 32·7 | 828·0 |
| | | | | | | | | | (+1·2) | (+6·0) | (+7·2) |
| | | | | | 3% Loan in redemption of East India Company's debt (£127 5s. 4d. for £100 cash). | 2·4 | (1·8) | | 796·5 | 38·7 | 835·2 |
| Total ... | 90·3 | (66·2) | 8·9 | 99·2 | Total ... | 79·4 | (59·5) | 79·4 | Net reduction =19·8 | 6·1 | =25·9 |
| | SINKING FUND LOANS: | | | | | | | | | | |
| 1819 | 17·2 | (6·0) | — | 17·2 | 3% Loan (£142 18s. 8d. per £100 cash). | 17·2 | (12·0) | 17·2 | | | |
| 1820 | 17·1 | (12·4) | — | 17·1 | 3% Loan (£142 4s. 0d. per £100 cash). | 17·1 | (12·0) | 17·1 | | | |
| 1821 | 16·9 | (12·2) | — | 16·9 | 3% Loan (£130 7s. 6d. per £100 cash). | 16·3 | (12·5) | 16·9 | | | |
| | | | | | 3½% Loan (£119 4s. 5d. per £100 cash). | ·6 | ( ·5) | | | | |
| 1822 (in 1823) | 9·3 | (11·5) (2·4) | — | 9·3 | 3% Loan. | 9·3 | ( 7·5) | 9·3 | | | |
| | | (44·5) | — | 60·5 | | 60·5 | (44·5) | 60·5 | | | |

Figures taken from :—
P.I. and E. (App. 12), pp. 790-93.
,, ,, (App. 13), pp. 1038-39.
,, ,, (App. 6), pp. 733-41.

# APPENDIX D

## Various Statistics relating to the State of the Currency during the period 1807-23

| Year. | Index Numbers: Gold[1] | Silver[2] | Hamburg[3] | Jevons | Silberling | Bank of England: Note Issue. | Trade Discounts. | Government Advances | Country Bank Note Issue. | Public Expenditure. | Public Revenue. | Unfunded Debt. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1807 | — | 110·2 | 104 | 152 | 152 | 16·7 | 13·5 | ·8 | — | 73·3 | 64·9 | 29·4 |
| 1808 | — | 107·1 | 106 | 171 | 166 | 17·1 | 13·0 | 2·8 | — | 78·0 | 68·2 | 35·2 |
| 1809 | — | 110·4 | 121 | 185 | 176 | 18·9 | 15·5 | 3·9 | — | 81·5 | 69·1 | 39·0 |
| 1810 | — | 113·9 | 120 | 188 | 176 | 22·5 | 20·1 | 3·8 | 21·8 | 81·6 | 73·0 | 38·8 |
| 1811 | 123·9 | 120·7 | 144 | 169 | 158 | 23·3 | 14·4 | 9·3 | 21·5 | 87·2 | 71·0 | 40·3 |
| 1812 | 130·2 | 126·5 | 128 | 170 | 163 | 23·2 | 14·3 | 11·2 | 19·9 | 94·8 | 70·3 | 43·7 |
| 1813 | 136·4 | 136·7 | 130 | 171 | 185 | 24·0 | 12·3 | 14·9 | 22·6 | 111·2 | 74·7 | 46·5 |
| 1814 | 124·4 | 124·3 | 119 | 176 | 198 | 26·9 | 13·3 | 17·1 | 22·7 | 112·9 | 77·9 | 54·2 |
| 1815 | 118·7 | 117·5 | 114 | 152 | 166 | 26·9 | 14·9 | 14·2 | 19·0 | 99·5 | 79·1 | 52·5 |
| 1816 | 102·9 | 100·9 | 100 | 125 | 135 | 26·6 | 11·4 | 12·0 | 15·1 | 71·3 | 69·2 | 47·2 |
| 1817 | 102·2 | 104·3 | 102 | 138 | 143 | 28·3 | 4·0 | 17·6 | 15·9 | 58·7 | 57·6 | 56·2 |
| 1818 | 104·6 | 106·5 | 105 | 155 | 150 | 27·2 | 4·3 | 20·0 | 20·5 | 57·6 | 59·5 | 55·7 |
| 1819 | 101·7 | 104·3 | 102 | 134 | 136 | 25·1 | 6·5 | 19·4 | 17·4 | 57·5 | 58·1 | 45·1 |
| 1820 | 100 | 99·3 | 97 | 122 | 124 | 23·9 | 3·9 | 16·7 | 11·8 | 58·4 | 59·9 | 37·4 |
| 1821 | 100 | 97·0 | 94 | 108 | 117 | 24·1* | 2·7 | 12·0 | 11·6* | 58·4 | 61·6 | 33·0 |
| 1822 | 99·8 | 97·6 | 96 | 101 | 114 | 23·3* | 3·4 | 9·0 | 13·7* | 56·5 | 59·9 | 35·7 |
| 1823 | 99·8 | 97·1 | 95 | 102 | 113 | 25·0* | 3·1 | 7·2 | 16·0* | 54·3 | 58·6 | 37·2 |

[1] At par, 1 oz. gold = £3 17 10½
[2] At par, 1 oz. silver = 60·84d.
[3] At par, 36s. banco = £1 0 0

} The index numbers give the *premium* on gold, silver, etc.

*The actual figures are—for the Bank of England note circulation £21·6, £17·9 and £18·6 millions; for the Country Bank note circulation, £8·4, £8·0 and £8·8 millions. But allowance has to be made for the replacement of small notes by gold coin. The figures given are arrived at by taking the total of sovereigns and half-sovereigns issued in each year, adding enough of this amount to the Bank of England note circulation to make up for its actual withdrawal of £1 and £2 notes, and putting the rest into the Country Bank circulation total.

*Gold, Silver, Hamburg Exchange and General Commodity Index Numbers.*

The index numbers for gold, silver, and the Hamburg Exchange, are calculated from data given in Appendix 14 to the 2nd Report of the Commons' Committee on Resumption (pp. 300-11), and in Appendix 96 to the Report of the Committee on the Bank Charter (pp. 586-89). The figures as far as 1818 are given in Hawtrey's "Currency and Credit" (p. 263).

Jevons' General Commodity Index Number (corrected to base-year 1790) and Professor Silberling's Index Number (base-year 1790) are taken from the latter's "British Prices" (pp. 250, 232-33).

*Note Circulation and Bank of England Advances.*

The figures for the Bank of England Note Circulation give the average amount of notes in circulation in each year, and are taken from Appendix B.2 to the 2nd Report of the Lord's Committee on Resumption (p. 689) and from Appendix 81 to the Report of the Committee on the Bank Charter (p. 561).

The Commons' Committee on Resumption suggested (2nd Report, p. 9) that in estimating the *real* extent of the Bank's assistance to the Government and in determining the control of the Bank over its issues, a deduction should be made from the actual amount of the Bank's advances upon Government securities corresponding in amount to the average sum held by the Bank as a deposit of public money. The figures for the Bank's accommodation to the Government, therefore, represent the mean of the actual amounts of public securities held by the Bank on February 28th and August 31st in any year, *less* the average public deposits at the Bank in that year. The figures are calculated from data given in Appendices 5 and 24 to the Report of the Committee on the Bank Charter (pp. 507-11, 523).

The figures for commercial paper under discount give annual averages, and are taken from Appendix 59 to the Report of the Committee on the Bank Charter (p. 542).

The figures for the Country Bank Note Circulation are taken from Appendix F.8 to the 2nd Report of the Lords' Committee on Resumption (p. 414) and from a table given in Tooke's "Letter to Grenville" (p. 29). They have no pretensions to accuracy since figures of the actual issues were not available; but the Stamp-duty levied on the notes at this period, provided a means of calculating (though with a wide margin of possible error) the approximate amount of the circulation in any year. The estimates given are those of Sedgwick, the Chairman of the Board of Stamps.

*Public Revenue and Expenditure, and Unfunded Debt.*

The figures for Revenue and Expenditure are taken from the Public Income and Expenditure Return of 1868-69 (pp. 504-35), and give the *gross* amounts of each for the financial year (which ended on January 5th and, therefore, corresponded closely to the calendar year).

The figures for the Unfunded Debt give as the amount for each year the mean of the Unfunded Debt outstanding at the beginning and at the end of that year. They are calculated from data in the same Return (pp. 790-93).

*NOTE on the State of the Banking System under Restriction.*

At this period the banking system of the country consisted of (a) the Bank of England, (b) about seventy London Banks, (c) a large and varying number of Country Banks. The Country Banks issued notes which circulated freely in the neighbourhood of the bank of issue and formed the normal currency of the provinces, just as Bank of England notes constituted the currency of the London area. Before restriction, both varieties of notes were convertible into coin. After 1797, Bank of England notes became, *in fact,* at once full legal tender: Country Bank notes, on the other hand, though no longer convertible into coin, *were* convertible into Bank of England paper. Consequently, "the whole paper of the Country Bankers was a superstructure raised upon the foundation of Bank of England paper; and the same check which convertibility into specie under a better system provided against the excess of any part of the paper circulation, was under the existing system provided against an excess of Country Bank paper by its convertibility into Bank of England paper."[4]

But the Country Banks were not immediately dependent on the Bank of England. Over and above the currency of bank-notes, a variety of credit-instruments—bills of exchange, accommodation bills, etc.—had a more limited circulation. Of these, the most important from the Country Bankers' point of view, was the draft on a London Bank. "The currency of every other bank is limited in its circulation within particular districts and cannot therefore be employed in transacting the payments of distant places. But money in London is a commodity in universal request and bills for its payment constitute a medium of exchange common to the whole country. All the various money dealers who are dispersed throughout the Kingdom require to be provided with a stock of this common currency in order to carry on their business and for this pur-

[4] Bullion Report, p. 28.

pose they find it necessary to establish a credit on the metropolis, on which for a suitable premium, drafts may be obtained at all times."[5] The reserve of the Country Banker, therefore, consisted of (a) a small (possibly quite small[6]) quantity of Bank of England notes, (b) deposits with a London Banker.

The London Banks (which received deposits, but did not issue notes), in addition to taking their part in financing commercial operations in the City, acted as correspondents of the Country establishments. "All the scattered debts of the Country are collected into one common account by the bankers of the metropolis which is then brought to a final balance: here, as to a point, all the cash transactions of the Country naturally converge and here the account is finally closed by payments in cash."[7] The daily turnover at the London Clearing House averaged about £5 millions; about £220,000 was generally found sufficient for the discharge of the several balances due at the settlement of account; and this payment was made exclusively in Bank of England notes[8] (or coin).

The banking system was therefore quite centralised. The Country Banks raised their superstructure of credit on a foundation of Bank of England notes and credits with London Bankers; the London Bankers, in turn, found the basis of their operations in their holding of Bank of England notes. Control ultimately rested with the Bank of England, as the sole issuer of legal tender currency;[9] and responsibility for the value of the currency over any considerable period rested with the Bank Directors and with no one else. But over short periods, very considerable variations in the value of the currency could take place without any action on the part of the Bank.

Neither the Country Banks nor the London Banks adhered to the principle of a fixed proportion between their cash reserves and their liabilities; so that, though no single banker could extend his liabilities without having to face the possibility of bankruptcy, a considerable expansion of credit could take place, if the bankers acted together, without any enlargement of the basis on which it rested. It consequently happened when credit was good and expectation on the wing, and under circumstances which encouraged extraordinary speculation, that bankers were induced greatly to extend their advances; each being persuaded that, at such a period, his competitors would pursue the same course.[10] (Since an expansion of credit of this sort would require a certain amount of co-ordination, the

[5] Buchanan, "Banking," p. 81.
[6] *Cf.* Bullion Report, p. 28.
[7] "Banking," p. 81.
[8] *Ibid.* p. 81.
[9] *Cf.* Thornton, "Paper Credit," p. 167.
[10] *Cf.* Tooke, "Letter to Grenville," p. 122.

initial impulse probably came, in general, from the London Banks, and extended later to the Country.[11]) What was the check to a movement of this sort? The extra demand for local currency could be met by the increased employment of the local note-printing press; the enlarged demand for bills and drafts could be met in a similar way; only the Bank of England note issue was intractable. Though the London Bankers might economise in their use of these notes, such economies could not be carried very far;[12] and unless the Bank of England's note-issue was extended, the expansion of credit was limited. If the Directors *did* expand their issues, the movement of credit could go on till the compliance of the Directors was exhausted; if the issues were kept unchanged, the movement would continue for a short time till a reaction set in; if the issues were contracted, the movement would be checked early in its course.[13] It is, therefore, of the greatest importance to know on what principle the Bank of England note-issue was regulated during Restriction.

The bulk of the issues of Bank of England notes were made against Exchequer Bills and Commercial Discounts. The advances to the government depended largely on the financial exigencies of the nation; urgent demands for accommodation from the Chancellor of the Exchequer seem generally to have been complied with, though often under protest.[14] In the case of commercial discounts, the principle according to which the Directors publicly professed to regulate their issues, was that discounts should be made only on Bills growing out of real commercial transactions and falling due in a fixed and short period;[15] and that all bills which came within this category should be discounted freely at the rate of 5%.[16] If this rule had been actually adhered to, it would have proved a very ineffective check on excessive issue; for, at times when the rate of commercial profit was very high, as it frequently was in this period, there would in fact have been no limit to the demands which merchants of perfectly good capital and of the most prudent spirit of enterprise, might have been tempted to make upon the Bank for accommodation and facilities by discounts.[17] In practice, discounts were not always obtainable

11 *Cf.* "Letter to Grenville," p. 126-27.

12 *Cf.* "Paper Credit," pp. 74-75; there would also be an increased demand for notes for non-banking purposes owing to the rise of prices.

13 *Cf.* Tooke, "High and Low Prices," I., p. 95.

14 *Vide* Resumption II. (App. A.1 and A.2), pp. 277-300.

15 Bullion Report, p. 26.

16 This was the maximum rate allowed by the Usury Laws. Owing to the restrictions imposed by these laws, the Bank, unable to raise freely its discount rate, was forced to refuse bills if it wished to contract its issues (*cf.* McCulloch, "Historical Sketch of the Bank of England," pp. 38-39).

17 *Cf.* Bullion Report, p. 23.

even upon bills that came within the prescribed limitations[18]—other circumstances were considered. The Directors were, for instance, in the habit of fixing a maximum to the amount of accommodation that would be granted, under any circumstances, to each individual customer:[19] they also considered the general state of the circulation.[20] Briefly, "the Directors did not act up to the principle which they represented as one perfectly sound and safe, and must be considered as having possessed no distinct and certain rule to guide their discretion in controlling the amount of the circulation.[21]

The feeble and nerveless handling of the situation by the Central Bank enabled the other banks to take a much more prominent part in the control of credit than they were entitled to. The commercial booms of 1808 and 1814 were both based upon an expansion of Country Bank paper,[22] and the Bank of England made no attempt to take control by contracting its own issues, as a compensatory influence. It was only when the movements had run their course that the Bank intervened and increased its issues in order to stave off the full effects of the general discredit that ensued. It is, therefore, possible to agree with Professor Silberling's contention that during a time of expanding credit, the Bank played "a minor and more or less passive rôle:"[23] but it is difficult to find any grounds for his view that it is a "misapprehension" to consider that "the Bank of England was, under the prevailing conditions, still the ultimate source and prime manufacturer of credit;"[24] and that "the credit operations of the Bank were not in any degree, if at all, responsible for price fluctuations."[25] If the Bank's issues were really "dominated in large measure by those of the Country,"[26] why did not the "unregulated extravagance of Country banking"[27] lead to much greater inflation than actually took place? and if "the provincial banks were in fact . . . on an inconvertible basis until 1821,"[28] why did they so frequently go bankrupt?

[18] *Vide* Bullion Report, pp. 22, 24; "High and Low Prices," I., p. 55.
[19] Bullion Report (Evidence), p. 89; *cf.* "Paper Credit," pp. 179, 294; "Letter to Grenville," p. 54.
[20] Bullion Report (Evidence), p. 89.
[21] Bullion Report, p. 24; *cf.* "Letter to Grenville," p. 54.
[22] "History of Prices," II., p. 39.
[23] "British Prices," p. 241.
[24] "Financial and Monetary Policy," II., p. 438.
[25] "British Prices," p. 241.
[26] "Financial and Monetary Policy," II., p. 419.
[27] *Ibid.* p. 418.
[28] "British Prices," p. 242.

## APPENDIX E

### Table of Imports and Exports.

| Year. | Imports (Official Value). | Exports (Official Value). | Exports (Real Value). | Re-exports (Official Value). | Total Exports. |
|---|---|---|---|---|---|
| 1801 | 31·8 | 24·9 | — | 10·5 | 35·4 |
| 1802 | 29·8 | 25·6 | — | 12·8 | 38·4 |
| 1803 | 26·6 | 20·4 | — | 8·1 | 28·5 |
| 1804 | 27·8 | 22·7 | — | 9·0 | 31·7 |
| 1805 | 28·6 | 23·4 | (38·1) | 7·7 | 31·1 |
| 1806 | 26·9 | 25·8 | (40·9) | 7·8 | 33·6 |
| 1807 | 26·7 | 23·4 | (37·2) | 7·7 | 31·1 |
| 1808 | 26·8 | 24·6 | (37·3) | 5·8 | 30·4 |
| 1809 | 31·8 | 33·6 | (47·4) | 12·8 | 46·4 |
| 1810 | 39·3 | 34·1 | (48·4) | 9·5 | 43·6 |
| 1811 | 26·5 | 22·7 | (32·9) | 6·2 | 28·9 |
| 1812 | 26·2 | 29·5 | (41·7) | 9·7 | 39·2 |
| 1813 | (Records destroyed by fire). | | | | |
| 1814 | 33·8 | 34·2 | (45·5) | 19·4 | 53·6 |
| 1815 | 33·0 | 42·9 | (51·6) | 15·7 | 58·6 |
| 1816 | 27·4 | 35·7 | (41·7) | 13·5 | 49·2 |
| 1817 | 30·8 | 40·1 | (41·8) | 10·3 | 50·4 |
| 1818 | 36·9 | 42·7 | (46·5) | 10·9 | 53·6 |
| 1819 | 30·8 | 33·5 | (35·2) | 9·9 | 43·4 |
| 1820 | 32·5 | 38·4 | (36·4) | 10·5 | 48·9 |
| 1821 | 30·8 | 40·9 | (36·7) | 10·6 | 51·5 |
| 1822 | 30·5 | 44·3 | (37·0) | 9·2 | 53·5 |
| 1823 | 35·8 | 43·8 | (35·4) | 8·6 | 52·4 |

The figures are taken from the "Account showing the Official Values of Imports into and Exports from the U.K. from 1801 to 1853" (Customs Tariffs Blue Book, 1898, p. 48), and from the "Table of the Real Value of Exports of Produce and Manufactures of the U.K." (*ibid.* p. 51). The significance of the terms "real" and "official" will be explained by the following paragraph:—

> "In 1798, a Convoy Duty was imposed upon the exports of produce and manufactures of the U.K. and, being rated 'ad valorem,' became the means of laying the foundation of an authentic record of the real value of the exports of the U.K. The records, however, are only complete from 1805. The 'official' values of exports and imports were based on the old rates or valuation of goods as laid down in The Book of Rates of Charles II. and George I., and though affording a basis for estimating the comparative volume of trade from year to year, give no correct idea of the value of the trade for each year at the current prices of the year" (*loc. cit.* p. 51).

## *APPENDIX F*

### Address and Petition of the Distressed Mechanics of Birmingham, presented to Parliament by Henry Brougham on April 28th, 1817.

"The thereunder signed Inhabitants of the town of Birmingham beg leave to approach the House, and to inform them of their forlorn and miserable situation. Accustomed from their earliest infancy to habits of continued labour, they have never been forward to obtrude their humble interests upon the public attention, but they have always placed confidence in the wisdom and justice of parliament and of their country. Nor should they now have been induced to prefer their complaints; but their misery is greater than they can bear, and they are compelled to make known their distresses to the House.

"They are in distress, and in their misery they call upon their country for relief. They ask no more than the House will acknowledge that good citizens have a right to expect, they ask no favour; they only ask to have it placed in their power to earn an honest bread by honest labour, they only ask to be permitted to give to their country the benefit of their labour and to receive in exchange the scanty comforts necessary for the support of life. Their wants are only food and clothing and shelter from the elements. Never before have they known the time when the labour of an Englishman could not procure him such humble comforts as these; nor can they now believe that his labour is of less value than formerly. In all former times the labour of an Englishman could produce a sufficient quantity of the good things of life, not only for his own maintenance, but to provide an ample remuneration to his country and to his employers; and they presume to believe that the labour of an Englishman is still competent to produce a far greater quantity of the good things of life than his humble maintenance requires; that some cause which they cannot understand has deprived industry of its reward and has left them without employment and without bread. They have no

longer any demand for their labour, nor any bread for their families; their life has become useless to their country and burdensome to themselves. It would be better for them to die than to live; for then they would hear no more the cries of their children, their hearts would no longer be wounded by the sight of sufferings which they indeed share, but which they cannot relieve.

"They implore the House not to misunderstand the expression of those bitter sufferings which they endure. Hunger and poverty and distress have indeed changed all things around them, but they have not changed the petitioners, they have not changed that devoted loyalty which as good subjects they feel towards their king, nor that true English spirit which binds them to the constitution and to the House.

"Many of them have not had employment for many months, and few of them have more than two or three days' work per week, at reduced wages. The little property which they possessed in household furniture and effects, and the small hard-earned accumulations of years of industry and care, have been consumed in the purchase of food; and they are now under the necessity of supporting their existence by a miserable dependence on parochial charity, or by soliciting casual relief from persons scarcely less distressed than themselves. In the midst of these painful sufferings and privations their friends tell them they must wait and hope for better times. They beg leave to inform the House that they have waited until their patience is quite exhausted, for whilst they wait they die.

"Upon all former occasions of distress in any branch of trade, it was always found that some other channels of industry existed through which the honest labourer could obtain his bread; but now the petitioners find all other descriptions of labour equally distressed with themselves. A great calamity has fallen upon the whole nation, and has crushed the happiness of all. They would indeed indulge the hope that their sufferings are peculiar to themselves and may have been occasioned by the cessation of war expenditure among them; but on whatsoever side they turn their eyes, if they look to Manchester or to Glasgow, or to the crowded city or the peaceful village, from one extremity of their country to the other, they can perceive nothing but a universal scene of poverty and distress. The sighs and tears and convulsive effects of suffering millions too plainly convince them that some general and universal cause must have operated in producing such general and universal misery; and they implore the House to remove that cause, whatever it may be. They cannot but think that the House can remove it; or if its roots are so deeply hidden that no human wisdom can discover them, or so strongly fixed that

no human strength can remove them, they must then consider their sufferings as a visitation from Almighty God, to which they must dutifully bend; but in that case they intreat the House will adopt proper measures for the whole nation to humble itself in mortification and prayer, in order to propitiate divine justice and avert those heavy calamities which afflict them. But they cannot but think that these calamities originate in natural causes, which it is in the power of human wisdom to discover and to remove; they cannot but think that, in a great nation like this, the means of existence must exist for all; they cannot but think that, in a country abounding in every blessing and with every production of agricultural and mechanical industry, some means may be devised by which the blessings of Providence may be distributed and enjoyed, by which the productive powers of industry may again be brought into action, and the honest labourer may again be enabled to earn an honest bread by the sweat of his brow.

"The petitioners humbly pray that the House will take into consideration their distressed condition, and adopt such measures as in their wisdom may be deemed necessary for the relief of themselves and of their suffering country" (Parl. Debs. XXXVI. 23-25).

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